### LaKritz, Robb

From: Sent:

Ticknor, Scott B [TicknorSB2@state.gov] Monday, September 10, 2001 8:26 AM

To:

'Geetha.Rao@do.treas.gov'

Cc:

Good, David P; Monie, Krishna S; 'Robb.LaKritz@do.treas.gov'; 'Larry

McDonald@do.treas.gov'; 'Meg.Donovan@do.treas.gov'; Rapson, Robert G(NEW DELHI) Ken Dam Schedule Subject:

Importance:

High

Geetha, thanks for the green light. We have had a productive day - got confirmation for the meetings at NSDL, ICICI, SEBI, the RBI meeting and the Amcham lunch (see schedule below). The invitees for the Amcham lunch include reps for American International Group, Arthur Anderson, Bank of America, Citibank, Dow Corning, Exxon, KPMG, Morgan Guaranty Trust Company of NY, Morgan Stanley India, Pfizer, Principal Financial Group, Proctor and Gamble, Templeton Asset Managemeth Pvt, Wyeth Ayerst International, Enron India. It's a good mix of banks, brokers/asset managers, and a variety of real economy sectors (energy, oil, pharma, consumer products, business consulting). Should be a good group (not all the above will necessarily be able to come).

CNN does not have a person in Mumbai so Mr. Dam would have to go wtih CNBC, which I have touched base with and is eager to do the interview. Business Week's rep tells me she is interested in doing the interview, but can not promise a story from the interview - it would likely be on background only unless something particularly interesting came out of the inverterview. Would this be acceptable to you?

We are working on a program for Mrs. Dam and should be able to finalize something tomorrow. We hope to get a top woman entrepreneur in Mumbai to organize a lunch with a diverse group of people in the business/social sector. In the morning we would plan a tour of the city. Shall we send a draft schedule to you in Washington tomorrow or in Delhi (the group departs Sept 11, right?)?

Below is a cost estimate.

Estimated cost for Kenneth Dam's visit to Mumbai

Hotel Rooms (ITC Maratha Shearaton)

3 single rooms for 2 nights:

\$ 900

\$ 350

(Cost includes breakfast and transport to and from the airport)

Expediting services: (overtime for FSN, taxi claim and porters)

On arrival: (Sunday)

\$ 31

On departure:

\$ 30

Overtime for the congen driver:

2 hours overtime and one way taxi claim: \$ 9

Milage for vehicles:

\$40

Total estimate:

\$ 1360

Schedule

September 16

1

1930 Arrive Mumbai (Met by hotel car)

RON

ITC Maratha Sheraton hotel, near International Airport

Monday, Sept 17

08:00 -0900 Working breakfast at ICICI with Mr. K.V.Kamath, Chairman ICICI

0945-1030 Site visit to National Securities Depository Limited, Kamala Mills Compound

(This depository was facilitated by USAID's FIRE project resulting in reduced paperwork, increased productivity and elimination of securities transfer frauds.)

11:00-11:45 Meeting with Mr. D.R.Mehta, Chairman, Securities and exchange Board of India, 1st floor, Mittal Court, B Wing, 224 Nariman Point, Mumbai 400 021

12:00-12:30 Meeting with Mr. Ratan Tata, Chairman, Tata Sons ltd. at Bombay House, Homy Mody street, Fort, Mumbai 400 001. Tel: 204 3725. (to be confirmed)

12:45-13:30 Press interviews with Business Week and CNBC in Taj Mahal hotel

13:30-14:45 Lunch with US bankers/securities executives

15:00-16:00 Meeting with Mr. Bimal Jalan, Governor, Reserve Bank of India at the Reserve Bank of India Building, 1st floor, Mumbai 400 001

17:30 Return to the hotel

Tuesday, Sept 18

03:30 Depart Mumbai for Seoul by Korean Air

That's all for now. If you want to discuss please feel free to call me at home tonight at [(b)(6)] . (remember we're 10 and 1/2 hours ahead) or e-mail me at home at Tasneemnahar@hotmail.com. I'll check my e-mails.

Regards! Scott

### UNDER SECRETARY OF STATE FOR ECONOMIC, BUSINESS, AND AGRICULTURAL AFFAIRS

#### WASHINGTON

### SENSITIVE BUT UNCLASSIFIED

February 17, 2000

TO:

OPIC Board

FROM:

Under Secretary of State Alan P. Larson

SUBJECT:

Gaza Power Plant Project

At the December 14<sup>th</sup> meeting of the OPIC Board, Board members raised several questions regarding the Enron Power Plant project in Gaza for which OPIC is being asked to provide approximately \$54 million in financing. Detailed below are responses to each of these issues. I believe that the information below fully addresses the Board's concerns and recommend that the Board vote expeditiously to approve the project.

### The Saudi Bin Ladin Group

The firm's history and reputation The Saudi Bin Ladin Group is one of Saudi Arabia's largest companies. Its activities include construction, industrial and power projects, petroleum, chemicals and mining, telecommunications, operations and maintenance, manufacturing, trading, and satellite communications. The firm's estimated net worth is \$1 billion, and it employs more than 35,000 people. Known as "builders to the king," the company has been the Saudi Government's prime contractor for building the kingdom's highways and was in charge of the \$6 billion project to renovate and expand the Holy Mosques in Mecca and Medina. It has also built many of the palaces occupied by senior members of the Royal Family. The company has subsidiaries and offices in Canada, Cyprus, Egypt, France, Germany, Jordan, Indonesia, Italy, Lebanon, Malaysia, Spain, Switzerland, UAE, the U.K., and the United States.

Working in partnership with both the U.S. government and with U.S. firms overseas, the Saudi Bin Ladin Group has engaged in many of the Middle East region's largest infrastructure projects. The company is building the PP9 power plant in Riyadh in a \$1 billion joint venture with General Electric (to be completed in 2000). Similarly, it has worked with Raytheon and Bechtel on large power projects in Saudi Arabia. In 1997, it also partnered with Enron for an ultimately unsuccessful bid on the \$1.2 billion 1,750MW Shuaiba power plant project. It built the housing for U.S. Military Forces at Eskan Village in Riyadh and at the Prince Sultan Airbase near Al-kharj. Among the company's other major international projects is the runway construction at the new international airport in Kuala Lumpur, Malaysia. The Saudi Bin Ladin Group is widely regarded as a reliable and well-connected business partner.

Disassociation with Usama Bin Laden Over the years, the Saudi Bin Ladin Group has repeatedly disassociated itself both publicly and privately from Usama Bin Ladin. Usama is the only son of over thirty brothers who is excluded from the family business. In 1994, Bakr Bin Ladin, the head of the Saudi Bin Ladin Group, stated publicly:

"I and all the members of the family--who number more that fifty people--express our great regret, sorrow, and disapproval of all, of Usama's behavior, which we neither control nor condone. In light of the fact that Usama has been living outside the Kingdom of Saudi Arabia now for more than two years and all of the efforts we have made to bring him back to the correct path, we consider him singularly responsible for his statements, actions, and behavior, if in fact he did them."

Furthermore, in September 1998, Yahia Muhammad Bin Ladin, the company's Deputy Chairman, issued the following declaration (see attached Annex 1):

"As Deputy Chairman of the Saudi Binladin Group, I hereby issue the following declarations on our position vis-à-vis the subject, Usama bin Muhammad bin Awad Bin Ladin:

- Usama Bin Ladin possesses no legal or beneficial interest whatsoever (directly or indirectly) in Saudi Binladin Group or any of its subsidiaries, affiliates or other entities which form part of the Saudi Binladin Group.
- Usama Bin Ladin possesses no interest whatsoever (directly or indirectly)
  in any assets or any other property belonging to the Saudi Bin Ladin Group or any of its
  subsidiaries, affiliates or other entities which form part of the Saudi Bin Ladin Group.
- Usama Bin Ladin possesses no contractual, business or any other relationship whatsoever (directly or indirectly) by the Saudi Bin Ladin Group or any of its subsidiaries, affiliates or other entities which form part of the Saudi Bin Ladin Group.
- 4. Usama Bin Ladin is not funded (directly or indirectly) by the Saudi Bin Ladin Group or any of its subsidiaries, affiliates or other entities which form part of the Saudi Bin Ladin Group."

Treasury Department sanctions assessment OPIC and State have also received assurances from the Office of Foreign Asset Controls that there are no sanctions imposed on this company by the U.S. Treasury Department. If OFAC had reason to believe that the company is linked to Osama Bin Ladin, then the company would, as a result, be subject to USG sanctions.

Bin Ladin Company association with the Gaza Power Project The Saudi Bin Ladin Group has no direct, and hardly any indirect, involvement in this project. It is a minority shareholder in the Arab Palestinian Investment Company (APIC), with less than 1% equity ownership of APIC (contributing only \$500,000 to the total APIC equity pool of more than \$50 million). APIC, in turn, is a member of the Palestinian Electric Company (PEC), the consortium which is Enron's partner in this project. APIC holds 6% of the total project, a share that will be reduced when one-third of the total shares are offered on the open market to private Palestinian investors. The Saudi Bin Ladin Group, therefore, has less than a .06% interest in the Gaza Power Project. Consistent with its lack of involvement in the project's partnership arrangement, Enron reports that the Saudi Bin Ladin company has not participated in any aspect of the Gaza Power Project.

In conclusion There is no information indicating an existence of ties between Usama Bin Ladin and the Saudi Bin Ladin Group. On the contrary, the evidence shows that the company is reputable, with a well-regarded history of partnership with major American companies, international companies, and the U.S. government. Furthermore, the Saudi Bin Ladin Group plays no role in the Gaza Power Project since it is simply a 1% investor in a minority investor in the project. In light of the above, OPIC may conclude that 1) the Saudi Bin Ladin Group is untied to its notorious relative of the same name, and 2) that the company's indirect and minimal involvement in this project is not an issue that will inhibit OPIC from financing the Gaza Power Plant project.

### Support of the Government of Israel

Israeli support for the project The Government of Israel, past and present, supports the economic development of Gaza. Demonstrating this approval, Ariel Sharon, Minister of Infrastructure under the previous Israeli Likud government, provided the Palestinians with a May 1998 letter expressing Israeli support for the construction of a power plant in Gaza. Although the original support for the project was contingent upon the construction of an associated desalination plant, the current Israeli government has since reiterated its support for this project without conditions. On October 21, 1999, [(b)(6)]

told the U.S. Ambassador in Tel Aviv that the Government of Israel supported the project with the power plant alone. [(b)(6)] has asked that Enron consider a desalination plant in the future and Enron has promised to do so. Israel's current [(b)(6)]

, has also expressed Israeli support for the project to the U.S. Embassy in Tel Aviv.

In addition, I spoke on this subject with Israeli Prime Minister Barak's [(b)(6)]
, on two separate occasions, in October 1999 and again in January 2000. During the January 2000 phone call, [(b)(6)] responded positively. He further reasserted the GOI's support in his most recent meeting with Ambassador Indyk. At that time, [(b)(6)] confirmed the Israeli government's unequivocal support for the Gaza Power Project. He noted that all of the plant's offlake would be bought by the PEC. He also asserted the GOI's interest in seeing the construction of a desalination plant in later phases of the project's development, but confirmed that the GOI was no longer conditioning its support on the construction of such a plant.

Israeli support for economic development in Gaza and the West Bank Israel's overall support for Gaza's future economic development is further illustrated by its recent decision to allow the PA to sign contracts with foreign companies for the exploration of gas off the Gaza coast. This approval was given despite the facts that mineral rights in this area were left ambiguous in Israeli-Palestinian agreements. Prime Minister Barak has also demonstrated his support for economic cooperation by approving December 22, 1999, natural gas agreement between Israel and Egypt: Calling the project the "Pipeline of Peace," Barak noted that the line would supply gas to Israel, Gaza, and later to Turkey (see attached Annex 2).

In conclusion The Israeli government has repeatedly stated or demonstrated its interest in the successful implementation of the Gaza Power Project. In light of the above, OPIC may conclude that the Israeli government will support the project.

### Transparency and Equity Participants

PCSC The Board expressed concerns regarding the involvement of certain equity participants. The participation of the Palestinian Commercial Services Company (PCSC) and of Mr. Mohammad Rashid, in particular, was raised. As Chairman Yassir Arafat's advisor on economic issues, Mr. Rashid plays an important role in the development of economic policy and economic negotiations with Israel. He also serves as the head of PCSC, a government-owned holding company with shares in many of the major commercial activities in the West Bank and Gaza (e.g., petroleum, concrete, telecommunications, utilities, advertising, gambling, beverages and insurance projects). PCSC is also responsible for promoting Palestinian business and infrastructure development and for encouraging foreign investment in Gaza and the West Bank. It was in this capacity as PCSC chairman that Mr. Rashid and this project were introduced to Enron.

PCSC association with the Gaza Power Project PCSC is a minority shareholder in the PEC. The company holds 6% of the total project. This share will be reduced when one-third of the total project's shares are offered on the open market to private Palestinian investors. At that time, the PEC will hold no more than one-third of the total project shares. The small size of PCSC's share in the Enron project (4%) combined with the strength of Enron and the other partners leave PCSC with a limited impact on the decision-making for the project.

Transparency and Risk Mitigation The Palestinian Authority has repeatedly asserted its commitment to increase transparency in the West Bank and Gaza. In October, 1999, Chairman Arafat responded to the international donor community's concern about this issue by announcing the establishment of a ministerial-level committee to work with the IMF towards economic reform, greater transparency, and the passage of commercial legislation.

Upon the recommendation of this Committee, Chairman Arafat signed a landmark Economic Reform Decree on January 11, 2000. This decree calls for important steps in the areas of economic transparency, accountability, and fiscal responsibility (see attached Annex 3, official translation of the decree). It includes:

- 1) the consolidation of all PA revenues under the Ministry of Finance,
- the consolidation of the West Bank and Gaza payroll offices under the Ministry of Finance, and
- 3) the opening the books of all quasi-governmental commercial holdings -- including PCSC whose activities, while closely held in the past, will soon be reviewed by a leading Western accounting firm.

During his January 20, 2000, bilateral meetings with President Clinton and Secretary Albright, Chairman Arafat reiterated his commitment to instituting fransparency in Palestinian government activities.

Risk mitigants Demonstrating the seriousness of these objectives, the PA has providing a number of risk-mitigating incentives to the Gaza Power Project's finance agreements. These safeguards are designed to make this project financeable not only to OPIC but also to other financial institutions and to Enron's own Board of Directors. Enron is contributing its own funding to this project. Some of the mitigating factors include:

- A guarantee by the Palestinian Authority for the performance of all obligations of the Palestinian Energy Authority (PEA), the purchaser of the Gaza Power Plant's output. This includes coverage of PEA's \$20 million letter of credit. The guarantee was signed by Chairman Arafat (see attached Annex 4, signature page of the document), and
- An Implementation Agreement signed by the PA which makes overt statements of support for the project and the project company including (see attached Annex 5):
  - a) "PNA (PA) agrees that neither it, nor any other Palestinian Government Authority shall "interfere" with the construction and operation of the Facility or take any action that may cause or adversely affect the activities or economies of [Enron's project company] or its (its) shareholders."
  - b) "PNA (PA) agrees that it shall not grant, issue or allow to exist, or permit any Palestinian Government Authority to enact any legislation or take any other action that could be reasonably be expected to have a material adverse affect on [Enron's project company], project lenders or [Enron's project company] shareholders."

Furthermore, the project company's Board of Directors will consist of six Enron representatives, six PEC representatives (one from each of the six consortium members), and three local representatives to be selected after the public offering. In accordance with the shareholder agreement, Enron and its PEC partners must vote as a block. No one company, especially not the local firms with only one vote each, can control the Board.

PA strategic interest In assessing this funding request, it is important to appreciate the significance of the Palestinian Authority's strategic interest in the project's success: The economic need for a power plant in Gaza is great. Gaza is currently dependent upon the Israeli Electric Company for all of its energy requirements. The power supply is intermittent, and there are many hours each day during which no electricity is available. This situation renders it difficult for meaningful commercial growth to occur. The Gaza Power Plant Project will allow for a clean, reliable, and efficient source of energy that will be the cornerstone for the much needed industrial development of Gaza, and the project will improve the quality of life of Palestinians in Gaza.

In this context, it is also important to note the Palestinian Energy Authority's four-year history of timely payments to the Israel Electric Company for its power purchases (which are more costly than locally produced power). These timely payments continued even during the years of prolonged border closures between the West Bank/Gaza and Israel, demonstrating the Palestinian Authority's commitment to ensure the availability of electricity in Gaza.

The PA has also held out this project as an example of the stable business environment growing in Gaza and the West Bank. Recognizing that the economic growth of the area depends upon direct investment and the active engagement of foreign companies and governments, the PA intends for the Gaza Power Project to be the archetype for future infrastructure development. Chairman Arafat is aware that the success or failure of this highly visible project will impact the flow of capital and other assistance to the area.

In conclusion The PA views the Gaza Power Project as vital to its future growth. Providing power to its people and presenting its economy in a positive light, the Palestinian government is committed to seeing this project move forward to a successful conclusion. Efforts to increase transparency and to decrease corruption in all commercial government activities are paramount to succeeding in these goals. The PA continues to demonstrate its commitment to this project with both economic and legal reforms. In light of the above, OPIC may conclude that the Palestinian Authority 1) is committed to the success of this project and 2) will enforce appropriate levels of transparency to ensure the success of the project.

### U.S. Government Support

Significant foreign policy objectives As the Middle East peace process moves ahead, it is crucial for the U.S. government to demonstrate to the Palestinians the fruits of peace. Economic development, in particular, is critical to the long-term viability of any peace agreement reached between Israel and the Palestinians: support for the agreement must come from the people as well as the government. Projects like the Gaza Power Plant allow the "men on the street" to see tangible improvements in their daily lives.

In this respect, OPIC is set to play a significant role in the execution of our government's regional Middle East policy. By pledging \$125 million in credits for the West Bank and Gaza in 1993, OPIC committed its program to the U.S. pledge for Palestinian assistance.

This project, with Israeli, U.S., and Palestinian government cooperation, represents the type of project that the U.S. government envisioned when it made its commitments. To date, OPIC has spent only \$2.6 million of its Palestinian funds, and this project will go a long way in moving closer to our goals.

The Department of State attaches, therefore, great importance to this project and is committed to providing its wholehearted support to ensuring that the project is successful. Through its Embassy in Tel Aviv, its Consulate General in Jerusalem and its headquarters in Washington, the Department of State will monitor developments affecting the project. The embassy and the Department will assist both OPIC and Enron in addressing any difficulties that might arise. On the legal front, Department of State lawyers are currently working with OPIC regarding issues related to arbitration and enforcement. The legal departments are also cooperating on the design of language to ensure that any Palestinian entity succeeding the Palestinian Authority (following permanent status negotiations between Israel and the PLO) will abide by the Power Project's agreements.

### Conclusion

Enron's Gaza Power Project is the type of project that OPIC was established to finance. It promotes American foreign policy by being the catalyst to the economic development of a lesser-developed, emerging market economy. It will create American jobs and exports in an internationally competitive market through the \$32.5 million in project-related U.S. procurement. It will promote quality business standards by using the most environmentally sound technologies available and by promoting higher standards for labor and worker rights at the facility. Finally, we believe that it has the potential to pass on zero cost the American taxpayers through the managerial and financial involvement of one of our most reputable energy companies. This project satisfies all of the requirements within the OPIC mandate.

Drafted: NEA/IAI: NRothstein 72647 NEA/IAI / ROTHSTEIN: Larson memo to Board

E:Dcamner 64894

Cleared:NEA:TGVerstandig ok

NEA/IAI:JWalles ok

NEA/IAI: Jmcverry ok

E:RAlbright ok

EB/OIA:Bwatts ok

L/NEA:TBorek ok

## ANNEX 1



### OFFICIAL STATEMENT BY THE SAUD! BINLADIN GROUP

### SUBJECT : USAMA BIN LADIN

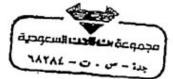
As Deputy Chairman of the Saudi Binladin Group I hereby issue the following declarations on our position vis-à-vis the subject. Usama bin Muhammad bin Awad bin Ladin (a.k.a. Usama bin Ladin):

- Usama bin Ladin possesses no legal or beneficial 1. interest whatsoever (directly or Indirectly) in Saudi Binladin Group or any of Its subsidiaries, affiliates or other entitles which form part of the Saudi Binladin Group.
- 2. Usama bin Ladin possesses no interest whatsoever (directly or indirectly) In any assets or any other property belonging to the Saudi Binladin Group or any of its subsidiarles, affiliates or other entities which form part of the Saudi Binladin Group.
- 3. Usama bin Ladin possesses no contractual, business or any other relationship whatsoever (directly or indirectly) with the Saudi Binladin Group or any of its subsidiaries, affiliates or other entities which form part of the Saudi Binladin Group.
- 4. Usama bin Ladin is not funded (directly or indirectly) by the Saudi Binladin Group or any of its subsidiaries, affiliates or other entities which form part of the Saudi Binladin Group.

Issued in Jeddah, Kingdom of Saudi Arabia, on the 5th day of September, 1998.

Yahla Muhammad Binladin Deputy Chairman

Saudi Biniadin Group



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## ANNEX 5

### Gaza Power Generating Private Limited Company (GPGC)

### PNA Obligations under the Implementation Agreement

- 1. Executed on June 18, 1999 between GPGC and PNA (Yasser Arafat)
- 2. PNA grants GPGC exclusive (20 years) right to develop the project.
- PNA grants GPGC exclusive franchise rights (20 years) to meet future electricity needs of Gaza as well as the right to wheel power to the West Bank if approved in the future by the Palestinian and Israeli governments.
- 4. PNA agrees to provide a suitable site and all access needed for construction and operating the Facility.
- PNA agrees to provide assistance, if needed, to GPGC in obtaining construction materials, equipment, and labor at market prices and well as transportation of such materials and equipment in the Territories.
- PNA agrees to provide the necessary transmission lines and substations needed to accept power from the Facility.
- 7. PNA agrees to exempt GPGC for all Palestinian taxes during the term of the agreement.
- PNA agrees to assist GPGC with the importation into the Territories of all materials and equipment
  used in construction and operation of the Facility as well as exempt GPGC from all applicable import
  and customs duties.
- PNA agrees that neither it, nor any other Palestinian Government Authority shall "interfere" with the
  construction and operation of the Facility or take any action that may cause or adversely affect the
  activities or economics of GPGC or it's shareholders.
- 10. PNA agrees to provide legal opinions from it's Palestinian and English counsels concerning the form of this agreement and any other consents or opinions necessary to obtain financing of the Facility.
- 11. PNA agrees to provide, except for normal internal guard service provided by GPGC at it's own expense, any additional police or inilitary protection deemed necessary and appropriate to safeguard the Facility in consultation with GPGC.
- 12. PNA agrees to provide yearly audited financial statements from PEA.
- 13. PNA covenants and agrees that it shall not grant, issue or allow to exist, or permit any Palestinian Government Authority to enact any legislation or take any other action that could be reasonably be expected to have a material adverse affect on GPGC, project lenders or GPGC shareholders.
- PNA agrees to provide to GPGC any Palestinian Government Authorizations and further Consents necessary to construct, finance or operate the Facility.
- 15. PNA agrees that in the event the PNA is succeeded by any other entity or the constitution of the PNA is altered or amended (for statehood), the PNA shall ensure that it or its successor will take all reasonable steps required by GPGC or the project lenders to ensure that GPGC's rights and PNA's obligations under this agreement remain unaffected by any such change.

C:\TEMPVarxon.doc

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Agenda coming as well.
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AG
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> ----Original Message-----
> From:
               Bauer, Kristen F
> Sent:
                Tuesday, December 11, 2001 7:01 AM
> To:
      Otto, Stanley A(Tokyo)
> Cc:
                                 Greenberg, Allen S(Tokyo);
       [(b)(6)]
> Subject:
                all the papers
> Stan and John, here's where we stand at the end of Monday.
> Attached are all the papers--the US positions and Responses to Japanese
> concerns have changed from those in your briefing books. (We will need to
> update LArry's and David's books as well.)
> I would suggest adding a del meeting into the schedule for early Thursday.
> FYI, other things remaining to be done:
[(b)(5)]
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Attachment Converted: "c:\RDrive\Attach\participants1210.doc"

Attachment Converted: "c:\RDrive\Attach\Points on US Concernst.doc"

Attachment Converted: "c:\RDrive\Attach\Responses to GOJ Specific Concerns.doc"

Attachment Converted: "c:\RDrive\Attach\Japan's Investment Climate.ppt"

Attachment Converted: "c:\RDrive\Attach\openingstmt.doc"

Attachment Converted: "c:\RDrive\Attach\Larry's FDI.ppt"

Attachment Converted: "c:\RDrive\Attach\US Participants.doc"

### Wunderlin, Linda

From: Sent: To:

Subject:

Wong, Marcia K [WongMK@state.gov] Wednesday, December 05, 2001 12:48 AM Abbott, Lucy K; Robert. Kaproth (E-mail) Clearance on Cable attached on Enron



12 2001 Enroncable do

Guys: I know you're absolutely nuts--I've attached a draft cable on

### Enron

and as i touched on the japan financial impact briefly I wanted to make sure you saw it for comment/clearance. don't spend too much time on it as I know you've got Erai sama in town!

if i can have your comments by tomorrow that would be great, <<12.2001Enroncable.doc>>

Marcia K. Wong Trade Policy Unit Chief/Economic Section US Embassy 10-5 Akasaka 1-chome Minato-ku Tokyo 107-8420 (tel) 3224-5029; (fax) 3224-5019

- SENSITIVE BUT UNCLASSIFIED. NOT FOR INTERNET DISTRIBUTION. BUSINESS PROPRIETARY INFORMATION
- 2. Summary. The dramatic and rapid decline of Enron took many in Japan involved with energy markets and deregulation by surprise. Enron's Japan operations had been the most vocal proponent for energy deregulation in Japan and its withdrawal has been interpreted by some as a serious reversal to efforts to open up Japan's power and gas markets to competition. The media and financial analysts are also focusing on the financial impact of Enron's bankruptcy although analysts believe its effect is limited. US energy interests in Japan are now assessing how Enron's departure will affect their activities and one company in particular hopes to be able to step into the advocacy vacuum. End summary.

Enron—the Foreign "Player" in Japan's Potential Energy Market...

3. Enron Japan, established in April 2000, had been one of the most visible advocates for energy liberalization in Japan. Through E Power Holding Corporation (a joint venture set up in 1999 with Japanese company Orix, headed by pro-reformer XXXXX Miyauchi), Enron was exploring power generation ventures in several prefectures. The company had co-sponsored a widely attended conference on power deregulation in May 2001 and subsequently released a study with recommendations for energy reforms for Japan. One of Enron Japan's representatives agreed to chair the recently-created Energy Subcommittee of the American Chamber of Commerce. Now, with its recent filing for bankruptcy, there has been an impact on Japan's financial market as well as concerns in Japan that deregulation efforts have suffered a serious blow.

## Is now played out?

- 4. Enron's collapse has had some reverberations in the Japan's financial markets but analysts believe it is not of overwhelming significance. Japan's Financial Services Agency Shoji Mori commented to press that Enron's bankruptcy would have "very limited" impact on Japan's financial sector. A Goldman Sachs analyst agreed that the impact would be "manageable," while a Merrill Lynch analyst described the impact of Enron on the banking structure as similar to a "mid-size domestic bankruptcy."
- 5. Japanese banks reportedly had some 100 billion yen of loans and other transactions outstanding with Enron as of December 4. Both Sumitomo Mitsui and MTFG publicly released figures on their loan exposure to Enron December 3. Sumitomo Mitsui indicated an outstanding exposure of 33 billion yen while MTFG cited 35.3 billion yen with Enron. Japanese money management funds also were affected. Four Japanese funds fell below par value last week due to losses on corporate bonds issued by Enron. The four companies—UFJ Partners Asset Management Company, Nikko Asset Management, Japan Investment Trust

and Sumisei Global Investment Trust lost 1.2 trillion yen Friday November 30 from a combined investment balance as of November 28 of 3.3 trillion yen.

### Finatt: ANYTHING TO SAY ON THE SAMURAI BONDS?

6. On its presence in Japan's energy market, Enron Japan is keeping a low-profile, realizing last month that the company's financial troubles would cast into question their reputation and activities in Japan. Enron Japan had plans with to build power plants in Aomori and Yamaguchi prefectures and had been in active discussions with local governments. A joint project with a major Japanese textile company, Teijin Limited, may be on hold as Teijin reportedly asked Enron to cancel the joint feasibility study on a 70,000 kilowatt coal-fired thermal power plant in Shikoku. [(b)(4)]

### A blow to deregulation efforts?

Enron's demise has made it an above-the-fold press item for the Japanese major dailies and specialized energy press. Mainichi Shinbun opined in an editorial that with the California energy crisis and the Enron failure, "it was clear that the US electricity liberalization advanced too fast and too much." The editorial however continues to say that this does not mean that Japan should stop liberalization altogether as the country needs to "advance its competition and efficiency in the energy industry when the global economy requires cost reduction ...". The more conservative daily, the Sankei Shinbun, described Enron's withdrawal from the Japan market as an "undreamed of ambush" of some METI officials, which viewed Enron as somewhat of an ally in its efforts to liberalize the market. The Sankei comments that the loss of "gaiatsu" with Enron's departure will lead to the domestic industry "regaining its strength" and that the utilities will utilize Enron's failure in its arguments to counter what it perceives as the "evil effect of rapid liberalization". (GET A BETTER CLARIFICATION ON SANKEI) Nikkei had some kind words for Enron, saying it did contribute positively as a symbol of globalization, liberalization and innovation.

8. While some observers are commenting that Enron's failure will slow down deregulation efforts, METI Minister Hiranuma told the press that he did not expect the firm's bankruptcy to hinder ongoing electricity deregulation. Hiranuma stressed that electricity deregulation is needed, regardless of pressure from foreign entities, in order to revive the Japanese economy. In recent conversations with econoff, METI officials have lamented the absence of Enron presence from the policy debate as "extremely unfortunate" as they had had hopes that Enron Japan would have participated in the December hearing of the Electricity Industry Subcommittee (the group which is to develop recommendations on the next steps for deregulation of the power market). METI is now approaching other firms and told econoff that they hope that another US firm will emerge as the "flag bearer" on advocating sector liberalization.

## Filling the Void

 Other US companies recognize that without Enron as the front guy on the issues, they will need to step up and more visibly support liberalization and market access issues in Japan. One US company representative in Japan indicated to econoff that it was ready to become more active in the debate but in a style different from Enron's customary "aggressive" policy. [(b)(4)]

10. Comment. The Enron failure will have some effect to USG energy deregulation efforts in Japan as we will have to make sure that its failure is not perceived as due to Enron's activities in deregulation but also we will have to counter the misperception that without the company's presence, the US government does not have a platform. Upping the industry profile will be difficult as many US firms are not present in Japan, monitoring progress from other offices in the region or from the US. Others with presence in Japan are assessing how or if they can be helpful in the policy debate without jeopardizing potential business interests. In future discussions on energy liberalization, we can continue to expect to have to fend off arguments that the California energy crisis is typical of deregulation. However, as the GOJ is interested in "real experience" as it studies the deregulation processes in other countries, we will also have to discuss the possible impact of Enron's failure on US efforts to deregulate its electricity market.

### Wunderlin, Linda

From: Sent:

Abbott, Lucy K [AbbottLK@state.gov]
Friday, October 19, 2001 5:04 AM
Robert Dohner (E-mail); Kaproth (E-mail)
FW: ACCJ Conference Room Reserved/ ACCJ committee list

To: Subject:



Committeechairs-100401 de.

fyi

----Original Message----From: Wong, Marcia K

Sent: Friday, October 19, 2001 4:33 PM

To: Abbott, Lucy K; Cheyne, Gerard A; Durbin, Andrew S; Froats, Daniel T; Greenberg, Allen S; Kevin Honan (E-mail); Kidd, Leigh P; Lackmann, Gerald R; Michalak, Michael W; Otto, Stanley A; Pellegrino, Daniel J; Stoner, Jeffrey

H; Watson, Samuel R; Webster, Jessica M; Wong, Marcia K

Subject: FW: ACCJ Conference Room Reserved/ ACCJ committee list

another list from accj with the descriptions....

----Original Message----

From: Hidemi Umemura [mailto:humemura@accj.or.jp]

Sent: Friday, October 19, 2001 4:30 PM To: Wong, Marcia K; 'Jonathan Kushner'; 'Crowther, Mark'

Subject: Re: ACCJ Conference Room Reserved/ ACCJ committee list

Dear Ms. Wong:

Please find the attached updated ACCJ committees & subcommittees list for your information.

I am not sure that it is the same list which you received before. Anyway, the Energy Subcommittee is listed now. If you have any questions, please let me know.

Regards,

Umemura, ACCJ

---- Original Message ----

From: "Wong, Marcia K" < WongMK@state.gov>

To: "Jonathan Kushner" <jkushner@accj.or.jp>; "Crowther, Mark"

<mark.crowther@enron.com>

Cc: "Hidemi Umemura" <humemura@accj.or.jp>

Sent: Friday, October 19, 2001 2:48 PM Subject: RE: ACCJ Conference Room Reserved

```
> Hi--one of the ACCJ staff very helpfully emailed out the list of
> committees/subcommittees to us--many thanks. It is dated from 9/12/01 but
> hope the energy subcommittee will be listed in the next update!
>
>
> ----Original Message----
> From: Jonathan Kushner [mailto:jkushner@accj.or.jp]
> Sent: Friday, October 19, 2001 11:25 AM
> To: Marcia Wong; Crowther, Mark
> Cc: Hidemi Umemura
> Subject: ACCJ Conference Room Reserved
> Marcia, Mark: We've reserved the ACCJ conference room for 9:30-11:30 on
> Nov. 12 for a briefing with Neuffer and the others. If that time doesn't
> work and you'd rather do breakfast, we'll check into the TAC. Jon
                       **************
> Jonathan Kushner
> Director, Policy Affairs
> American Chamber of Commerce in Japan (ACCJ)
> Masonic 39 Mori Bldg. 10F
> 2-4-5 Azabudai
> Minato-ku, Tokyo 106-0041
> Direct Tel: (03) 3433-8546
> Fax: (03) 3433-8454
> EMail: jkushner@accj.or.jp Web: http://www.accj.or.jp
```

## Tokyo

Aerospace

Chair Lance Gatling, Boeing Japan

A forum for U.S. aerospace and defense manufacturers' Japanbased representatives to exchange ideas.

Air Cargo

Chair Tad Johnson, P & W Aftermarket Japan, KK Works toward the implementation and modification of procedures to facilitate the entry and distribution of air cargo in Japan.

### **Animal Health**

Chair Yasuomi Yano, Pfizer Pharmaceuticals Inc. Identifies areas in animal health product registration and distribution where additional deregulation is sought. Supports the international harmonization efforts made by governments and industries in the United States, Europe and Japan.

### Architecture/Construction/Engineering\*

Chair Ronald E. LaVoie, Lehman Brothers Japan,

Coordinates ACCJ efforts to encourage the opening of the design and (non-housing) construction markets in Japan. Functions as a point of contact between member companies, U.S. and Japanese governmental agencies, and the Japanese business community.

### Asia Business\*

Chair James M. Fuell, Deutsche Bank AG
Provides timely information about business-related issues in
various Asian countries through monthly guest speaker
programs. Monitors regulatory and political developments of
interest to U.S. businesses active in the region.

### Banking and Finance

Chairs Thomas Clark, General Electric Japan, Ltd. Ernfred Olsen, Shinsei Bank, Ltd.

Coordinates ACCJ activities on market access and regulatory issues within the banking industry in Japan. Sponsors seminars for members and acts as a conduit between Japanese banking institutions and their American counterparts.

### **Business Expansion\***

Chair Robert Simon, Nick & Associates
Serves to promote U.S. commercial interests across a wide
array of industries, Interfaces with the U.S. and Japanese
governments, business organizations, and the media to educate
and inform external parties on trade matters.

### Chemicals

Chair (TBA)

Facilitates communication between U.S. and Japanese companies on industry-related issues. Helps expand direct investment and joint ventures.

### Commercial Code Task Force

Chair Anthony Zaloom, Mori Sogo Law Offices
Coordinates input from ACCJ members across business sectors
on aspects of the Commercial Code in need of reform, and
works with the Japanese government and opinion makers to
implement suggested revisions.

### Compensation & Benefits

Chair Mark H. Steward, Deloitte Touche Tohmatsu Promotes awareness of tax issues in Japan pertaining to the treatment of compensation and benefits. Seeks to obtain fair treatment for American employers and employees related to Japan's taxation of compensation and benefits.

### Corporate Counsel

Chairs Laurence Bates, General Electric Japan, Ltd.

Royanne Doi, ACE Insurance

Focuses on the needs and concerns of lawyers working inhouse, i.e., working in corporate legal departments rather than practicing in private law firms.

### Corporate Transactions

Chair Michael A. View, Ernst & Young LLP Identifies tax issues in Japan pertaining to corporate transactions that are of critical concern to the American business community, and works to develop a strategy to obtain fair, equal and predictable treatment for American companies.

### Crystal Ball

Chair Kimberly Forsythe, Voice, Inc.
Plans the ACCJ black-tie dinner dance held in December each year. With more than 1,000 attendees, it is the Chamber's largest event.

### **Direct Marketing\***

Chair Eugene R. Raitt, AIG Companies
Sponsors speakers who cover a broad range of direct marketing
issues: telemarketing, database management and business-tobusiness direct marketing, among others. Works on the
deregulation of direct marketing in Japan.

### Direct Selling

Chair Brian T. Taylor, Japan Health Summit Inc.
Assists companies active in promoting products through direct selling methods. Established in September of 1999, the subcommittee is active in information exchange, market access measures, and regulatory reform.

### Energy

Chairs Mark Crowther, Enron Japan Corp.

Provides a focal point for exchanges of views between potential energy market participants and Japanese government officials and regulatory authorities with regard to possible changes in energy industry law and/or energy industry regulations.

### E-Business\*

Chairs

James R. Weisser, Enron Japan Corp. Andrew R. Fried, PricewaterhouseCoopers

## Tokyo

Informative monthly meetings and periodic seminars keep members informed about current trends in Internet-based commerce.

### Executive Briefing Breakfast\*

Chair Robert H. Simon, Nick & Associates
At members' request, organizes briefings on industry-specific topics in which a panel of speakers familiar with the Japanese business environment share their expertise and knowledge with participants.

### Financial Services\*

Chair Christopher P. Wells, White & Case LLP Identifies key initiatives that affect the financial services industry. Presents programs and issues Viewpoints on efforts to reform Japan's financial services sector.

### Food/Agriculture\*

Chair Larry Blagg, Market Makers, Inc.
Works to lower tariffs for processed foods, improve certification standards, and reform food labeling requirements.

### Foreign Direct Investment\*

Chair Nicholas E. Benes, JTP Corporation
Monitors the environment affecting the creation and
management of foreign investment in Japan. Recommends
actions to be taken regarding local restrictions and limitations
that affect the operation of foreign ventures.

### Government Relations\*

Chair Thierry G. Porté, Morgan Stanley Dean Witter Japan Limited

Monitors legislative and other political developments of interest to American companies doing business with Japan. Coordinates annual "Doorknock" visits in Washington, D.C. and Tokyo.

### Healthcare\*

Chair Mark Colby, Colby Group International, Inc. Promotes the successful marketing of medical devices and equipment, diagnostics, pharmaceuticals, and medical services in Japan for U.S.-based companies. Works with the Ministry of Health and Welfare to encourage deregulation efforts, remove unnecessary regulations, and ensure the environment supports the development of innovative new products and services for Japanese patients.

### **Healthcare Services**

Chair Guy Harris, Digital Medical Communications
Corp.

The Medical Services Subcommittee has been created to bring together companies with an interest in expanding the medical service industry in Japan. It is the aim of the subcommittee to offer expanding value to the Japanese medical system via the increased productivity and efficiencies available through Western developed localized services. It is also the aim to bring capitalistic forces to the forefront of solving the emerging healthcare crisis.

### Housing Industry

Chair Curtis Herron, K.K. Curtis Herron
Promotes U.S. housing products and services in the Japanese
market. Meetings feature guest speakers and networking
opportunities.

### Human Resource Management\*

Chair Leo Lawless, B Cube Ltd.

Helps to support companies in effective management of staff. Together with other professional organizations, works on monitoring Japanese labor laws. Publishes the triennial report People Management Issues of American Companies in Japan.

### Independent Business\*

Chair Mark Ferris, Building2 KK

Provides opportunities to develop relationships and mutual support among foreign enterprises based in Japan. Its popular Wisdom Council is an excellent venue for exchanging ideas among small and medium-sized businesses.

#### Insurance

Chair Charles D. Lake, American Family Life

Assurance Co. of Columbus

Focuses on developments in the insurance and financial services industry. Provides input to U.S. government organizations with regard to monitoring compliance and clarifying the impact of Japanese deregulation measures on market access.

### Intellectual Property\*

Chairs Michael O'Keeffe, Kroll Associates Inc.

Andrew P. Tennent, IBM World Trade Asia

Corporation

Invites prominent guest speakers from the Japanese Patent Office, customs, other agencies and academia for monthly presentations on intellectual property-related issues. Holds workshops on license agreement drafting and negotiation and other practical matters.

### Investment Management

industry in Japan.

Chair Scott M. Gilman, Goldman Sachs (Japan) Ltd.
Promotes full and equal access to Japan's savings and
retirement assets for American firms in Japan qualified to
manage those assets. Works to increase the range and value of
investment products to Japanese clients. Promotes the healthy
growth and development of the investment management

## Japan-America Cooperative Conference (JACC)\*

Chair Shojiro Makino, Pacific Consulting, Inc.
Established in 1986 by the ACCJ and the Japan/Tokyo Chamber of Commerce and Industry. JACC identifies specific areas of mutual concern and coordinates joint Viewpoints on topics related to regulatory and other market access problems.

## Tokyo

### Leadership Forum\*

Chair Donald P. Kanak Jr., AIG Companies
Forum for the leadership of the ACCJ, including all officers,
governors, committee chairs, vice-chairs and the ACCJ office
staff

### Legal Services\*

Chairs Marcus Kosins Jr., Kosins Attorney at Foreign

Law Office

James M. Minamoto, Anderson Mori

Keeps the American business community in Japan informed on legal and regulatory changes, legislative initiatives, trade negotiations and other law-related issues. Actively pursues liberalization of the rules restricting the activities of foreign lawyers in Japan.

### Living in Japan\*

Chair Ken Joseph, Jr., Jhelp.com
Holds programs aimed at helping members, their families and
companies deal with issues related to living and working in
Japan. Programs cover diverse areas: culture, travel, sports,
recreation, psychological adjustment and community service.

### Marketing Programs\*

Chair Kyle Cheriton, Walt Disney International Japan

inc.

Hosts the ACCJ's popular Marketing Breakfast (monthly on the second Wednesday) and co-sponsors special events. Prominent speakers address a variety of marketing issues including advertising, public relations, sales promotion and brand building.

### **Medical Devices and Diagnostics**

Chair Ed Northup, Boston Scientific Japan K.K.
Promotes the successful marketing of medical devices and
equipment in Japan by U.S. companies. Works with the Ministry
of Health and Welfare to encourage its deregulation efforts.

### Membership Relations\*

Chair John Y. Le Bourgeois, Temple University

Japan

Recruits new members and develops ways to make membership more meaningful and valuable. Conducts orientation meetings for new members and seeks ways of encouraging participation in ACCJ activities. Sponsors bimonthly Nomu-nication networking parties for members and guests.

### Nominating\*

Chair Ronald J. Anderson, AIG Companies
Responsible for submitting a slate of nominees for officers and
governors to the membership prior to the annual election.
Submits lists of nominees to the Board of Governors when there
are vacancies between annual elections. Note: This is a closed
committee.

### Nutritional Supplements

Chair (TBA)

The Nutritional Supplements Subcommittee serves on behalf of ACCJ member companies active in the nutritional supplements industry. Meetings are once a month, and activities focus on regulatory impediments regarding labeling, testing, licensing and other issues.

### **Paper Products**

Chair (1

Works closely with the American Forest & Paper Association and the U.S. Embassy to address issues in the Japanese paper industry, particularly efforts to accelerate the reduction of Japanese tariffs on paper.

### Pension

Chair TBA

Identifies key issues that impact the developing defined contribution industry. Meets regularly with government and ministry officials to understand and help shape regulations that will govern defined contribution plans. Leverages global experience of committee members to publish Viewpoints regarding best practices and generally accepted standards for corporate retirement plans. Presents periodic updates on the developing DC market and general retirement plan issues.

### **Pharmaceuticals**

Chair (TBA)

Focuses efforts on reference pricing, rationalization of services and systems, and the development and registration of innovative products for Japanese patients. Works with government officials, physicians and industry leaders to monitor legislation.

### Privacy Task Force

Chair (TBA)

Coordinates the interests of ACCJ members across business sectors on aspects of personal data protection, monitors developments in the overall regulatory environment, and works with Japanese industry organizations to develop self-regulatory measures to ensure the protection of personal information.

### Practice Liberalization

Chair Jay Ponazecki, Morrison & Foerster L.L.P. (G.J.B.J.)

Works toward the creation of a fully and freely competitive legal market in Japan to service Japan's liberalized business sector. Advocates the legalization of full partnerships between Japanese and U.S. lawyers and for the removal of all artificial and anti-competitive restraints preventing U.S. lawyers residing in Japan from joining with Japanese counterparts to offer comprehensive legal services to clients.

### Private Equity

Chair (TBA)

Focuses on the needs and concerns of private equity investors by addressing issues, including disclosure, due diligence,

## Tokyo

corporate governance, incentive-based compensation, financing alternatives and exit strategies.

Programs\*

Chair

C. Joseph Lestage, Capital Investment &

Realty, Inc.

Organizes breakfast, lunch, and evening programs featuring speakers of general interest. Programs have included global CEOs from American and Japanese companies as well as government officials. Plans joint networking events with other chambers of commerce.

Ratings, Disclosure & Securitization

Chairs Yoshito Hirata, Fidelity Investments Japan Ltd.
Jeffrey T. Shimamoto, White & Case LLP

Promotes greater transparency and full disclosure in Japanese financial markets. Works to advance the utilization of credit risk evaluation/analysis within the financial community. Formulates and presents Viewpoints on developments and regulations involving credit rating and financial disclosure matters to the relevant Japanese regulatory and governmental authorities.

### Real Estate Finance

Chair Eric J. Lucas, Babcock & Brown Co., Ltd. Focused on all aspects of the rapidly developing real estate finance market in Japan. Aims to facilitate informed and effective ACCJ member input/involvement as important new legal and structural changes are introduced in areas such as real estate investment trusts, tenancy laws and real estate taxation reform.

### Securities

Chair

Edmond L. Papantonio, Lehman Brothers Japan, Inc.

Works to analyze issues of concern to the securities industry, develop positions on such matters for the Chamber and bring together the Chamber's resources into a proactive stance on such matters.

#### Taxation\*

Chair Gary M. Thomas, White & Case LLP Provides information on changes in U.S. and Japanese tax laws and other legislative matters. Develops lobbying positions on tax or financial issues. Helps to further the dialogue between U.S. and Japanese government officials on tax and financial legislative matters.

Tax Treaty

Chair Michael D. Cannon, PricewaterhouseCoopers
A committee formed to investigate the possibility of a new tax
treaty between Japan and the United States.

Technology\*

Chair Michael J. Alfant, Building2 KK

Supports and promotes the expansion and diversification of sales of high-tech goods and services by American companies in Japan. Programs include guest speakers from government, leading technology companies and service providers.

### Telecommunications

Chair

Michael Kawachi, Lucent Technologies Japan

Ltd

Peter Butterfield, KVH Telecom

Provides a forum for discussion of trends, technological innovations and marketplace conditions in Japan.

### Telemarketing

Chair Alejandro Font, Telemarketing Japan, Inc. Sponsors programs that cover a broad range of telemarketing issues: operations, quality assurance, work staff management processes, as well as systems and database innovations within the telemarketing industry.

Toiletries, Cosmetics, & Fragrances\*

Chair Koichi Takashima, Procter & Gamble Far East,

Inc

Works toward international cooperation with respect to regulation of cosmetic products. Strives for consistent laws and guidelines that apply equally to all industry members.

**Transfer Pricing** 

Chair Gary M. Thomas, White & Case LLP Follows developments and recommends changes to Japan's transfer pricing policies.

Transportation & Logistics\*

Chair Tad Johnson, P & W Aftermarket Japan, KK Works toward the efficient use of air, sea and land transportation. Monitors legislation that affects equal access and free competition in the logistics service industry.

Travel Industry\*

Chairs Fumi Akasaka, Carlson Wagonlit Travel Japan

(JTB-CWT Business Travel Solutions)
Andrew A. Zimmerman, Northwest Airlines,

Inc.

Promotes U.S. travel-related businesses and provides networking opportunities and educational programs for members. Active participants include representatives from hotels, airlines, resorts, agencies and other travel-related industries.

University Briefing Breakfast\*

Chair David H. Satterwhite Ph.D., The Economist

Group (Asia/Pacific) Ltd.

Organizes Q & A sessions to help American students and educators learn about doing business in Japan directly from Americans who live and work here.

Tokyo

Young Professionals Group
Chair Isabelle Bruckert, DISCO Inc. Helps younger members establish business contacts within the community. Provides educational programs for career development. Sponsors monthly presentations, special events and an after-work networking party (monthly on the first Thursday).

\*Standing committees

(Committee Information 10-2001)

### Wunderlin, Linda

From: Sent:

Wong, Marcia K [WongMK@state.gov] Tuesday, January 15, 2002 12:17 AM Wendy Cutler (E-mail); John Neuffer (E-mail 2)

To:

Cc:

Robert Dohner (E-mail); Robert. Kaproth (E-mail); 'USAPEC@yahoo.com'; (RIA) Ballif, John L; Wecker, John A(Main State 4206); Abbott, Lucy K; Cheyne, Gerard A; Durbin, Andrew S; Froats, Daniel T; Greenberg, Allen S; Kevin Honan (E-mail); Kidd, Leigh P; Michalak, Michael W; Otto, Stanley A; Pellegrino, Daniel J; Stoner, Jeffrey H; Watson, Samuel R; Webster, Jessica

M; Wong, Marcia K

Subject:

Possible Q's for the Ambassador at FCC/Nikkei interview (if takes place)

Washington Gang: here are some Q's/topics that may come up during the course of our many econ visitors for food for thought; these are off the top of my pointy little head--others will probably have more.

Tokyo Econ Gang: If you have more ideas, comments, spin, pls let folks know and cc me please. Do you think it would be useful if formal press points/guidance is being ginned up in DC for the many visitors coming our way, that it be circulated to other agencies as appropriate so we're not in any way conflicting with each other?

exchange rate policy

NPLs/capital injection into banks

3. US-Japan FTA: what are merits/prospects?

Comment on Japan-Singapore FTA

5. PM ASEAN initiative

6. Investment trends--Are US investors still interested in Japan market (note Merrill Lynch, Morgan STanley closing down ops here)

7. ENRON bankruptcy--failure of deregulation? what are implications? (Arthur Andersen too--we beat the drum out here all the time regarding financial transparency, the merits of sound accounting etc.)

WTO: US expectations for WTO/EU Safeguard issue in WTO against US anti-dumping measures (probably a reach but is there anything to say on the possibility of a WTO ruling agnst US on the tax/export-subsidy issue?) US response to Japan going into serious recession, effect on rest of Asia

Japan's productivity crisis--what does Japan need to do to improve productivity?

- 11. comment on hollowing out issue
  12. Whither the US economy--its affect on Japan; what's going on with trade
- 13. PM Koizumi so far? How would you grade him/his progress on reforms?
- 14. What will be on the President's agenda during his visit to Japan? What will be the message for the PM?
- What types of restructuring steps does Japan need to take to stimulate the economy?

Poultry--if still an issue

Marcia K. Wong Trade Policy Unit Chief/Economic Section US Embassy

10-5 Akasaka 1-chome Minato-ku Tokyo 107-8420 (tel) 3224-5029; (fax) 3224-5019

## ROUTINE

## \*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*

## UNCLASSIFIED

# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE 01 OF 02

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ALSO NOT HAVE SUCCEEDED.

CAPITALIZATION IN JANUARY.

825548 24/15182

CAVEAT (S) =

HANDLE VIA

ACTION = [TRS]BOI (1), GI (1), IADB (1), ICP (1), IDC (1), IMB (2), INL (1)

ITI (1) . 0 | MF (1) . QC (1) . SEN (-) . UO (1)

CRC = 5097

RR RUFATRS

DE RUEHOG #6468/81 3581588

ZMR UUUUU ZZH

R 241588Z DEC 98

FM AMEMBASSY SANTO DOMINGO

TO RUEHC/SECSTATE WASHDC 3195

INFO RUEHPU/AMEMBASSY PORT AU PRINCE 1289

RUCPDOC/USDOC WASHDC

BT

UNCLAS SECTION 01 OF 02 SANTO DOMINGO 006460

USDOC FOR 3134/USFCS/010/WH/RD USDOC FOR 4322/ITA/IEP/WH/OMC8/SIEGELMAN

SENSITIVE

E. O. 12958: N/A

TAGS: ENRG EINV PREL DR

SUBJECT: ELECTRICITY SECTOR WRAP-UP

REFTEL: SANTO DOMINGO 6238 AND PREVIOUS

SENSITIVE BUT UNCLASSIFIED. HANDLE ACCORDINGLY.

2. (SBU) SUMMARY: ELECTRICITY SECTOR OBSERVERS WELCOME THE THIRD POSTPONEMENT OF CDE'S CAPITALIZATION, FEARING IT WOULD HAVE BEEN A FAILURE DUE TO BIDDER RESERVATIONS OVER QUESTIONS STILL OUTSTANDING. CDE HAS PLEDGED TO MAKE THE PAYMENTS NECESSARY TO GET SMITH-ENRON OUT OF DEFAULT BY THE END OF DECEMBER. IN THE MEANTIME, HOWEVER: PAYMENT DELAYS HAVE LED COASTAL AND SEABOARD TO SEND IN THEIR OWN SHUTDOWN NOTICE AND CDE IS SCRAMBLING TO GET MOMEY OUT OF THE CENTRAL GOVERNMENT TO MAKE SOME PAYMENTS. END SUMMARY.

#### CAPITALIZATION POSTPONED -----

3. (U) AS REPORTED REFTEL: THE CAPITALIZATION OF THE STATE-OWNED ELECTRICITY COMPANY, CORPORACION DOMINICANA DE ELECTRICIDAD (CDE): HAS BEEN POSTPONED FOR THE THIRD TIME. INDUSTRY SOURCES TELL US THAT ONLY ONE, OR POSSIBLY TWO, COMPANIES WERE WILLING TO BID AT THIS TIME ON THE THREE DISTRIBUTION COMPANIES THAT WERE TO HAVE BEEN OFFERED ON DECEMBER 17. WITHOUT THE DISTRIBUTION COMPANIES IN PLACE, THE OFFERING OF THE TWO THERMAL GENERATION COMPANIES ON DECEMBER 21 WOULD

4. (SBU) THE COMMISSION FOR THE REFORM OF PUBLIC SECTOR COMPANIES (CREP), WHICH MANAGES THE CAPITALIZATION PROCESS. PUTS THE BLAME FOR THE POSTPONEMENT ON CURRENT FIMANCIAL MARKET CONDITIONS PARTICULARLY FOR THE WOULD-BE EUROPEAN PARTICIPANTS. ANOTHER REASON OFFERED WAS THAT SOME FIRMS HAD NOT BEEN ABLE TO FINISH EVALUATING THE DAMAGE CAUSED BY HURRICANE GEORGES. CREP DIRECTOR ISA CONDE, IN A DECEMBER 23 MEETING WITH ECO/POL COUNSELOR: SAID BLUNTLY THAT HE HAD REALIZED THAT THEY WERE "IN SUCH A POOR POSITION, WE COULDN'T TAKE THE RISK OF FAILURE." ISA CONDE, LOOKING HARRIED, SAID THE CAPITALIZATION WILL TAKE PLACE IN FEBRUARY OR MARCH 1999. HE CONFIRMED THAT HE HIMSELF WILL TRAVEL TO MEET WITH THE COMPANIES THAT HAVE SHOWN THE INTEREST IN THE

U) INDUSTRY SOURCES POINT TO MORE FUNDAMENTAL PROBLEMS WITH THE OFFERING, SAYING THAT TOO MANY QUESTIONS REMAIN OUTSTANDING. WOULD-BE BIDDERS HAVE REPORTEDLY NEVER RECEIVED AN ANSWER TO THE QUESTION OF WHAT THE GODR WILL DO IF THE DISTRIBUTION COMPANIES CUT OFF POWER TO THE NON-PAYING POOR CHOTE: OR RICHI. THE CREP HAS VALUED COE'S ASSETS AT US\$688 MILLION WHICH IS HIGHER THAN EXPECTED AND ALSO, MANY BELIEVE, HIGHER THAN IS WARRANTED BY THE COE AUDIT, WHICH INDUSTRY SOURCES SAY IS STILL INCOMPLETE.

6. (U) IN SUM, INDUSTRY REPRESENTATIVES WELCOME THE POSTPONEMENT, SAYING IT WAS PRACTICAL. SMITH-EMPON'S [(b)(6)] COMMENTED TO ECONOFF THAT IT WOULD HAVE BEEN DIFFICULT IN THE RUN UP TO THE CHRISTMAS SEASON TO GET THE NECESSARY ENROW PERSONNEL TO SIGN OFF ON A BID. THE INDUSTRY IS HOPEFUL THAT THE CREP AND CDE WILL, BETWEEN THEM, DO THE WORK STILL NECESSARY FOR A SUCCESSFUL CAPITALIZATION.

CDE TO PAY SMITH-ENRON

[(b)(4)]

ENDON HAS REPORTEDLY RECOMMENDED THAT THE LENDERS DRAW ON THE NON-RENEWABLE ENRON GUARANTEE FOR THE REMAINING FUNDS.

WHILE OTHERS MOT PAID

8. (SBU) AS CDE IS DEDICATING AVAILABLE FUNDS TO SMITH-

## UNCLASSIFIED

## DEPT TREASURY COMCEN-PH 622-2222 RM 1121/MT

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PAGE 82 OF 82 MID=199835881598 0725548
ENROW, OTHER IPP CLAIMANTS ARE NOT BEING PAID.
INDUSTRY SOURCES TELL US CDE IS EVEN IN DEBT TO LOCAL
IPP METALDOM INOTE: THIS IS SURPRISING GIVEN METALDOM'S
POLITICAL CONNECTIONS). ALTHOUGH COASTAL'S MANAGER HAD
TOLD US HE PLANNED TO TAKE HIS PLANT OFF LINE THE WEEK
OF DECEMBER 14. COASTAL HAS NOW JOINED WITH SEABOARD IN
SENDING A LETTER TO CDE SAYING THEY WILL TAKE BOTH
PLANTS OFF LINE ON DECEMBER 26 IF THEY AREN'T PAID.
BETWEEN THEM THE TWO PLANTS GENERATE 195 MW. THERE ARE
UNCLAS SECTION 82 OF 82 SANTO DOWINGO 886468

USDOC FOR 3134/USFCS/GLO/WH/RD USDOC FOR 4322/ITA/IEP/WH/OMCB/SIEGELMAN

SENSITIVE

E.O. 12958: N/A TAGS: ENRG EINV PREL DR SUBJECT: ELECTRICITY SECTOR WRAP-UP

INDICATIONS THAT CDE IS TRYING TO GET MOMEY OUT OF THE CENTRAL GOVERNMENT TO MAKE A BIG ENOUGH PAYMENT TO KEEP THE POWER OM.

9. ISBUI IN THE MEANTIME, INDUSTRY SOURCES TELL US
CDE'S COLLECTIONS HAVE DECREASED IN THE SUPPOSED RUNUP
TO CAPITALIZATION. IN PLACE OF THE 48 PERCENT OF TOTAL
COLLECTIONS THE COMPANY HAS USUALLY REALIZED. IT HAS
BEEN COLLECTING ABOUT 28 PERCENT. SINCE HURRICANE
GEORGES, CDE HAS ALSO NOT RECEIVED THE FULL AMOUNT OF
THE MONTHLY GOVERNMENT SUBSIDY. OUR SOURCES LAY THE
BLAME FOR THIS AT THE FEET OF [(b)(6)]

WHO CONTINUES TO CLASH WITH [(b)(6)]

COMMENT

18. ISBU) AS NOTED ABOVE, INDUSTRY REPRESENTATIVES ARE RELIEVED OVER THE POSTPONEMENT OF THE CAPITALIZATION --BETTER A POSTPONEMENT THAN A FAILURE. THEY ARE HOPEFUL THAT THE ADDITIONAL TIME WILL BE WELL SPENT IN ANSWERING THE QUESTIONS OF WOULD-BE INVESTORS. HOPEFUL BUT SOMEWHAT SKEPTICAL. ANOTHER POSTPONEMENT COULD WELL BE THE DEATHKNELL FOR THE CAPITALIZATION OF CDE. ONE OBSERVER HAS COMMENTED THAT THE 1997 PRIVATIZATION LEGISLATION WOULD ALSO ALLOW THE GODE TO SIGN A LONG TERM CONTRACT WITH A FOREIGN COMPANY TO ADMINISTER COE. THIS, WHILE A LESS IDEAL OPTION, MIGHT SERVE TO LESSEN THE POLITICIZATION OF CDE AND GET THE COMPANY BACK ON ITS FEET.

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## UNCLASSIFIED

## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE 81 OF 82

MID=298183881284

861946 97/12432

CAUFATIS) : HANDLE ULA

ACTION = [TRS]BOI (1) . CALL (3) . FCEN (1) . GIUN (1) . IDB (1) . IDC (1) . IMB (1) IMF (L) / ISM (1) / ITF (L) / IT( (1) / OIMF (L) / QC (L) / SEN (-) / TSDN (-)

CRC = 62A9

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FM AMCONSUL MUMBA!

TO RUEHC/SECSTATE WASHOC IMMEDIATE 1958 INFO RUEHNE/AMEMBASSY NEW DELHI IMMEDIATE 7388

RUEHCI/AMCONSUL CALCUTTA IMMEDIATE 1411

RUEHCG/AMCONSUL CHENNAI IMMEDIATE 3938 RUEATRS/TREASDEPT WASHDC IMMEDIATE

RUCPOOL, USDOC WASHDC IMMEDIATE 0038

UNCLAS SECTION 01 OF 02 MUMBAI 00213

STATE PASS EXIMBANK FOR HUTCHINSON AND RITA MURRELL STATE PASS OPIC FOR RUTH ANN NICASTRI AND BRIDGET WILLIAMS

STATE PASS USTR FOR RICK RUZICKA

STATE PASS SEC FOR MARISA LAGO

TREASURY FOR GEETHA RAO

USDOC FOR 3131/010/ANESA/KBRENNAN

USDOC FOR 4538/MAC/OSAO/ASTERN

USDOC FOR 6888/LTA/TD/AC/TSCHUNG

USDOC FOR SHARDING

SENSITIVE

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E. Ø. 12958: N/A

TAGS: ENRG, EFIN, ECON, EINU, IN

SUBJECT: MSEB PAYS ANOTHER MILLION: ENRON AND GOM TAKE TO THE MEDIA

- 1. (U) WE WERE INFORMED BY ENRON THIS MORNING THAT ANOTHER RS. 5 . CRORES (USD 1.88 MILLION) HAS APPEARED IN ITS BANK ACCOUNT, DEPOSITED THERE BY THE MAHARASHIRA STATE ELECTRICITY BOARD (MSEB). THIS AMOUNT WAS APPARENTLY PAID AGAINST THE RS. 79 CRORES (DOLS. 17 MILLION) OWED ON MSEB'S NOVEMBER BILL INHICH ENRON HAS NOW ASKED THE CENTRAL GOVERNMENT TO PAY).
- (U) NOW THAT ENRON/DABHOL POWER COMPANY (DPC) UPPED THE ANTE IN ITS DISPUTE WITH THE GOVERNMENT OF MAHARASHTRA (GOM) BY CALLING IN A COUNTER-GUARANTEE FROM THE GOVERNMENT OF INDIA (GOI), BOTH SIDES HAVE TAKEN TO THE MEDIA TO EXPLAIN THEIR CASE. THIS MORNING, THE CHIEF MINISTER, VILASRAO DESHMUKH, BRIEFED THE PRESS AND STATED THAT THE GOM DOES NOT WANT TO RENEGE ON ITS CONTRACT WITH DPC, BUT HAS NO MONEY TO PAY NOW. IF THE MSEB HAD MONEY, HE SAID, IT WOULD PAY. THIS IS PARTIALLY AT ODDS WITH QUOTED REMARKS BY GOM FINANCE . MINISTER JAYANT PATIL, HOWEVER, WHO SEEMS TO BE TALKING ON BOTH

MID=200103801284 SIDES OF THIS PARTICULAR ISSUE. ON THE ONE HAND, PATIL HAS BEEN QUOTED AS SAYING "WE ARE FIRM IN OUR DECISION TO NOT PAY ENRON SINCE ITS POWER WAS TOO EXPENSIVE," ADDING THAT "THE PROJECT IS NOT IN THE INTEREST OF MAHARASHTRA. NO ONE WILL PAY THE RATE ENRON IS CHARGING." ON THE OTHER HAND, HE HAS ALSO BEEN QUOTED SAYING "WE HAVE EVERY INTENTION TO PAY THE DUES, BUT THERE IS A FUND CRUNCH," CRITICIZING ENROW'S "UNDUE HASTE IN INVOKING THE GUARANTEE, ESPECIALLY AT A TIME WHEN THE STATE IS ON THE VERGE OF FORMING A REVIEW COMMITTEE." BOTH DESHMUKH AND PATIL HAVE BEEN SEPARATELY QUOTED AS SEEKING THE CENTER'S INTERVENTION IN THIS CASE, WITH DESHMUKH LOOKING FOR "DELIVERANCE" FROM THE ENRON CRISIS. AS FOR THE CENTER'S POSITION, ONE PAPER (THE ECONOMIC TIMES) QUOTED UNNAMED "SOURCES IN THE UNION GOVERNMENT" SAYING THAT "WE WILL PAY ENRON ITS

DUES AND DEDUCT IT SUBSEQUENTLY FROM MAHARASHTRA'S PLAN ALLOCATION."

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87/12437

(U) CEO NEIL MCGREGOR HAS BEEN QUOTED IN SEVERAL NEWSPAPERS OVER THE PAST TWO DAYS EXPLAINING WHAT THE GUARANTEES AND COUNTER GUARANTEES MEAN AND WHY THEY FELT COMPELLED TO CALL THEM IN AT THIS TIME. IN PARTICULAR, MCGREGOR HAS EMPHASIZED THE IMPLICATIONS FOR MAHARASHTRA'S INTERNATIONAL REPUTATION IN MOT HONORING SIGNED AGREEMENTS. ENROW TOOK OUT A FULL PAGE ADVERTISEMENT IN TODAY'S FCONOMIC TIMES AND ISSUED A PRESS RELEASE YESTERDAY -- BOTH RIGHLIGHTED THE FACT THAT DABHOL HAS BROUGHT IN 2.2 BILLION USD OF FOREIGN INVESTMENT AND CONTRIBUTED APPROXIMATELY 358 HILLION USD TO THE STATE AND CENTRAL EXCHEQUER.

4. (SBU) COMMENT: MSEB'S DRIBS AND DRABS APPROACH IS PUZZLING. SOME OBSERVERS ARE OF THE OPINION THAT [(b)(1)] RUFFLED MANY FEATHERS AND HELPED PROVOKE A MAJOR CRISIS FOR THE STATE. WITH HIS NEW MILLION-DOLLAR PAYMENT, HE MAY BE TRYING TO MAINTAIN SOME CREDIBILITY ALTHOUGH HOW THIS FITS WITH THE CONFUSING RHETORIC FROM THE GOM IS NOT AT ALL CLEAR.

[(b)(1), (b)(4)]

## IMMEDIATE

## UNCLASSIFIED

## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE 02 OF 02

MID=200103801284

961946 97/1243Z

[(b)(1), (b)(4)]

UNCLAS SECTION 02 OF 02 MUMBAI 00213

STATE PASS EXIMBANK FOR HUTCHINSON AND RITA MURRELL
STATE PASS OPIC FOR RUTH ANN NICASTRI AND BRIDGET WILLIAMS
STATE PASS USTR FOR RICK RUZICKA
STATE PASS SEC FOR MARISA LAGO
TREASURY FOR GEETHA RAO

USDOC FOR 3131/010/AMESA/KBRENNAN USDOC FOR 4538/MAC/CSAO/ASTERN USDOC FOR 6888/ITA/TD/AC/TSCHUNG USDOC FOR RHARDING

SENSITIVE

E. 8. 12958: N/A

TAGS: ENRG, EFIN, ECCN, EINV, IN

SUBJECT: MSEB PAYS ANOTHER MILLION: ENROW AND GOM TAKE TO THE MEDIA

[(b)(1), (b)(4)]

G000 BT #8213 62A9

NNHH

### Christopulos, Greg

From:

Christopulos, Greg

Sent:

Thursday, December 13, 2001 9:29 AM

To:

'Efird, Neil'

Subject:

RE: Azurix

thanks -- very well written, you must be in public affairs or have a graduate degree in English.

----Original Message-----

From: Efird, Neil [mailto:EfirdN2@state.gov] Sent: Wednesday, December 12, 2001 6:06 PM

To: 'Greg.Christopulos@do.treas.gov'

Subject: Azurix

As promised:

On Dec. 11, EB/CBA, EB/OIA, WHA and Legal Advisers were briefed on the status of Azurix's problems in Argentina [(b)(4)]

The

Department has agreed to facilitate meetings with Provincial Governor Ruckauf and to support AMEMB's efforts to increase GOA awareness as to the urgency of this matter. The Department also encouraged Azurix to contact Argentine press in Washington to increase knowledge in Argentina about Houston-based Azurix, i.e., it is (only) one-third owned by Enron and two-thirds owned by independent investors.

## PRIORITY

## CONFIDENTIAL

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## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT



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MID=199918700165

96/9693Z 854835

CAVEAT (S) =

HANDLE VIA ACTION = [TRSIG| (1), IBRD (1), ICC (1), ICM (1), IDB (1), IDC (1), IMB-(1)

INA (1) , ITI (1) , OIMF (1) , QC (1) , SEN (-)

CRC = 8888

PP RUEATRS

DE RUEHUR #1881/81 1878588

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FM AMEMBASSY ULAANBAATAR

TO RUEHC/SECSTATE WASHDC PRIORITY 2449

INFO RUCPDOC/USDOC WASHDC 8288

RHEHAAA/WHITE HOUSE WASHDC

RUEHBJ/AMEMBASSY BEIJING 15.02

RUEHML/AMEMBASSY MANILA 8385

RUEHMO/AMEMBASSY MOSCOW #2#3

RUEHUL/AMEMBASSY SEOUL 8381

RUEHKO/AMEMBASSY TOKYO 8345

RUEHHK/AMCONSUL HONG KONG 8215

RUEHSH/AMCONSUL SHENYANG 8816

RHHMUNA/USCINCPAC HONOLULU H1//FPA//

RUEHIA/USIA WASHDC 8682

RHEBAAA/USDOE WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 ULAANBAATAR 001001

STATE FOR EAP/CM, E/CBA AND EB/IEP

USDOC FOR COUNSELOR KALICK! AND P. HUEPER; ALSO FOR ITA/EAP AND ITA/ENERGY

WHITE HOUSE FOR OUP-T. OSIUS AND MSC-LIEBERTHAL/KEITH

PASS AID/ANE/EAP-C. DOWNEY

PASS TDA-J. GRANDMAISON/G. JACKSON

PASS OPIC-M. MESSER

USDOE FOR INTL AFFAIRS

BEILING FOR ECON-S. REES AND CS-C. ADAMS MANILA FOR USADB-D. BARNES

6. 0. 12958: DECL; 7/1/84 TAGS: ENRG, EINV, MG, RS, CH

SUBJECT: ENROW HIGH VOLTAGE TRANSMISSION LINE PROJECT

REF: (A) ULAANBAATAR 966; (B) ULAANBAATAR 238, NOTAL

MID=199918788165

CLASSIFIED BY AMB. LA PORTA - REASONS 1.5 (B) & (D); CONTAINS PROPRIETARY INFORMATION

[(b)(1)]

2. (U) ROBERT KELLY, MANAGING DIRECTOR FOR RENEWABLE ENERGY, ENRON INTERNATIONAL, VISITED ULAANBAATAR JUNE 23-26 TO UPDATE THE GOM ON THE STATUS OF ENRON'S HIGH VOLTAGE POWER TRANSMISSION LINE PROJECT. KELLY MET WITH JAN KALICKI, COUNSELOR OF THE U.S. DEPARTMENT OF COMMERCE, ADVISORS TO THE PRIME MINISTER, OFFICIALS OF THE MINISTRY OF INFRASTRUCTURE DEVELOPMENT (MOID) AND ENERGY AUTHORITY. THE ECONOMIC ADVISOR TO THE PRESIDENT, PARLIAMENTARIANS, AND OFFICIALS OF THE PETROLEUM AUTHORITY OF MONOGLIA (PAM).

3. (SBU) UNLIKE KELLY'S PREVIOUS ENRON VISITS WHEN GOM OFFICIALS DID NOT SEEM TO BE WELL INFORMED, MINISTER BATKHUU, MOID OFFICIALS AND OTHERS SEEMED EAGER FOR ENRON TO IMPLEMENT THE PROJECT TO BUILD A HIGH VOLTAGE TRANSMISSION LINE THROUGH MONGOLIA/FROM THE IRKUTSK REGION TO NORTHERN CHINA. SINCE THE MOU VITH ENRON WAS SIGNED IN OCTOBER 1998, THE HOLD HAS WORKED TO ENSURE THAT THE REGULATORY ENVIRONMENT WILL BE IN PLACE. A NEW DRAFT ENERGY LAW, TO BE PRESENTED TO PARLIAMENT THIS WEEK, CONTAINS PROVISIONS FOR IMPORTING AND TRANSMITTING POWER ACROSS MONGOLIAN TERRITORY. GOM OFFICIALS HAVE ALSO DISCUSSED THIS PROJECT IN INTERGOVERNMENTAL WORKING GROUP SESSIONS WITH RUSSIA AND CHINA, AND WITH THE GOVERNOR OF IRKUTSK.

#### WIN VIN VIN

4. (U) THIS PROJECT WOULD BENEFIT EACH OF THE THREE COUNTIES INVOLVED. RUSSIA: WHICH HAS EXCESS CAPACITY. WOULD GAIN HARD CURRENCY FROM ENEREGY EXPORTS. MONGOLIA MOULD BENEFIT ECONOMICALLY FROM TAX REVENUE. EMPLOYMENT IN THE CONSTRUCTION AND MAINTENANCE OF THE TRANSMISSION LINE: AND AN UPGRADED POWER LINE TO PROVIDE ELECTRICITY FOR THE EREDENET COPPER COMPLEX. CHINA WOULD GET CLEAN POWER AT A LOWER COST THAN COULD BE PROVIDED FROM NEW COAL-FIRED PLANTS. AS INDICATED IN PREVIOUS REPORTING, THE POWER FROM THE TRANS-MONGOLIA HV LINE WOULD BE DESTINED FOR THE BEIJING/NORTH CENTRAL CHIMA REGION. FURTHERMORE, ENRON BELTEVES THAT, BECAUSE OF MUTUAL ANIMOSITIES, BOTH RUSSIA AND CHINA ARE HAPPY TO SEE A LARGE COMPANY IN THE MIDDLE. EACH SIDE WOULD CONCLUDE A CONTRACT TO SELL OR BUY WITH ENRON, NOT WITH THE OTHER COUNTRY. FROM THE MONGOLIAN

## CONFIDENTIAL

## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

86/86832

PAGE 82 OF 82 MID=199918700165 854835 STANDPOINT: AN ADDITIONAL BENEFIT IS THE INTRODUCTION OF A WELL-KNOWN MULTINATIONAL COMPANY INTO THE ENERGY SECTOR AND ENGAGING U.S. INTERESTS IN KEEPING A BALANCE WITH CHINA AND RUSSIA.

MID=199918780165

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**NEXT STEPS** -------

[(b)(1), (b)(4)]

[(b)(1), (b)(4)]

[(b)(1), (b)(4)] CONFIDENTIAL SECTION 82 OF 82 ULAAMBAATAR 881881

STATE FOR EAP/CM, E/CBA AND EB/IEP

USDOC FOR COUNSELOR KALICKI AND P. HUEPER; ALSO FOR ITA/EAP AND ITA/ENERGY

WHITE HOUSE FOR OVP-T. OSIUS AND MSC-LIEBERTHAL/KEITH

PASS AID/ANE/EAP-C. DOWNEY

PASS TDA-J. GRANDMAISON/G. JACKSON

COMMENT

PASS OPIC-M. MESSER

[(b)(1)]

USDOE FOR INTL AFFAIRS

BEIJING FOR ECON-S. REES AND CS-C. ADAMS MANILA FOR USADB-D. BARNES

E.O. 12958: DECL; 7/1/84 TAGS: ENRG. EINV. MG. RS. CH

SUBJECT: ENRON HIGH VOLTAGE TRANSMISSION LINE PROJECT

[(b)(1), (b)(4)]

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### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

OPERATOR).

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MID=199916681789

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ZNR UUUUU ZZH
R 151418Z JUN 99
FM USOFFICE BERLIN
TO RUEHC/SECSTATE WASHDC 2953
INFO RUCPDC/USDOC WASHDC
RUCMFRG/FRG COLLECTIVE
BT
UNCLAS SECTION #1 OF #2 BERLIN ##1192

DEPARTMENT FOR EB AND EUR/AGS

USDOC FOR 6188/ITA/TD/BI/JRASMUSSEN
USDOC FOR 4212/ITA/MAC/OWE/BLTOMLINSON

E.O. 12958: M/A
TAGS: ECON, EFIN. ELNV, PGOV. GM
SUBJECT: BERLIN: GERMANY'S FIRST MAJOR WATERWORKS PRIVATIZATION;
U.S. FIRM ENRON LOSES TO FRANCO-GERMAN CONSORTIUM

1. SUMMARY: BERLIN HAS SELECTED A FRANCO-GERMAN CONSORTIUM AS THE PREFERRED BIDDER FOR A 49.9 PERCENT SHARE OF THE STATE-OWNED MATERWORKS, GERMANY'S LARGEST WATER AND EFFLUENTS HANDLING COMPANY. THIS IS THE FIRST MAJOR PRIVATIZATION IN THIS SECTOR IN GERMANY AND THE FOURTH PRIVATIZATION OF A BERLIN UTILITY (FOLLOWING ELECTRICITY.) IN RECENT YEARS. THE WINNING BID WAS DM 3.3 BILLION PLUS MANY EXPENSIVE FUTURE COMMITMENTS. ENRON LOST, DESPITE HAVING PLACED A VERY GENEROUS BID. WITH AN ESTIMATED INVESTMENT NEED OF DM 388 BILLION IN THIS SECTOR IN GERMANY IN THE NEXT FEW YEARS AND LOCAL AUTHORITIES SUFFERING FROM INCREASING BUDGETARY CONSTRAINTS, MORE SALES OF MUNICIPAL WATER UTILITIES TO PRIVATE INVESTORS AND OPERATORS ARE TO BE EXPECTED.

2. A FRANCO-GERMAN CONSORTIUM CONSISTING OF THE GERMAN
DIVERSIFIED ENERGY GIANT RWE, A MAJOR FRENCH WATER SPECIALIST
COMPAGNIE GONGRALE DES EAUX (VIVENDI). AND THE GERMAN INSURANCE
COMPANY ALLIANZ (ONE OF THE WORLD'S LARGEST INSURANCE COMPANIES)
LOOKS SET TO BE THE MINNER OF THREE COMPETITORS FOR THE 49.9
PERCENT SHARE OF THE BERLIN MATERWORKS (BWB). THE CITY MILL
RETAIN THE CONTROLLING INTEREST IN THE NEW HOLDING, WHICH ALSO
CONTAINS BWB'S OPERATIONS IN CENTRAL AND EASTERN EUROPE AS WELL
AS ASIA. THE LOSERS IN THE PROCESS WERE ENRON IN PARTNERSHIP
WITH THE HESSEN STATE BANK AND A CONSORTIUM CONSISTING OF THE
BERLIN-BASED BANKGESELLSCHAFT BERLIN AND THE FRENCH SUEZ
LYONNAISE DES EAUX (THE WORLD'S LARGEST WATER AND EFFLUENTS

3. RME/VIVENDI/ALLIANZ BID DM 3.1 BILLION FOR BWB AND PLEDGED TO COMMIT DM 288 MILLION TO SHORING UP A DEFICITARY METHANE PRODUCTION FACILITY IN THE FORMER GDR. THE CONSORTIUM ALSO MADE A LARGE NUMBER OF MAJOR COMMITMENTS: TO KEEP CURRENT MATER PRICES UNTIL DECEMBER 2883, TO CONTINUE EMPLOYING BWB PERSONNEL FOR THE NEXT 15 YEARS, TO INVEST DM 5 BILLION IN BWB OVER THE NEXT 18 YEARS, TO RETAIN BWB AS AN INDEPENDENT COMPANY WITH ITS SEAT OF BUSINESS IN BERLIN, TO RELOCATE VARIOUS CONSORTIUM SUBSIDIARIES MITH 738 JOBS IN BERLIN BY THE END OF 2884, TO DEVELOP BWB AS A NATIONAL AND INTERNATIONALLY ACTIVE COMPANY AND BERLIN AS A CENTER FOR MATER AND EFFLUENTS MANAGEMENT TECHNOLOGY.

- 4. WITH NEARLY 4 MILLION CUSTOMERS FOR MATER AND EFFLUENTS, APPROXIMATELY 6,488 EMPLOYEES AND OPERATIONS RANGING FROM SHARES AND INVESTMENTS IN EASTERN EUROPE, TELECOMMUNICATIONS ALONG ITS 1488 KM PIPELINES IN BERLIN TO THE INNOVATIVE BUT SEVERELY DEFICITARY SLUDGE FIRING UNIT USED TO MANUFACTURE METHANE, BWB IS THE LARGEST WATER UTILITY IN GERMANY. WHILE WATER CONSUMPTION IN THE AREA CONTINUES TO FALL AND PRICES ARE AMONG GERMANY'S HIGHEST, TURNOVER FELL TO DM 1.9 BILLION IN 1998 WITH A SEVERE DROP IN PROFITS TO DM 65 MILLION. TO DATE THESE PROFITS HAVE FLOWED INTO THE CITY BUDGET, WHICH HAS ALSO USED BWB FUNDS AS A STOP-GAP IN TIMES OF CRISIS. THE PRIVATIZATION TERMS WILL ENSURE THE CITY A SECURE INCOME IN THE FUTURE TOO.
- 5. THE TENDER PROCESS HAS BEEN ACCOMPANIED BY A CACOPHONY OF PROTESTS AND HARASSMENT FROM ALL POLITICAL PARTIES, INCLUDING THE COU AND SPD THAT FORM THE CITY COALITION GOVERNMENT, AND UNIONS AND MANAGEMENT OF BWB, WHO WERE UNITED IN THEIR DISTASTE FOR PRIVATIZATION. A SUCCESSION OF PRESS RELEASES OF NEW UNPLEASANT TRUTHS ABOUT THE REAL INNER LIFE OF BWB THREATENED TO FRIGHTEN OFF BIDDERS, AND LEGISLATION NECESSARY FOR THE PARTIAL PRIVATIZATION WAS REPEATEDLY DELAYED IN PARLIAMENT. THE GOAL IS NOW TO OBTAIN PARLIAMENTARY APPROVAL FOR THE PRIVATIZATION BY JULY SO THAT THE PURCHASE PRICE CAN STILL BE USED TO BALANCE THE 1998 CITY BUDGET, WHICH IS HOPELESSLY IN THE RED. THIS ASSUMES THAT A CONSTITUTIONAL CHALLENGE BY THE OPPOSITION GREEN AND EX-COMMUNIST PDS PARTIES WILL NOT SUCCEED. THEY ARGUE THAT THE PRIVATIZATION OF WATER FACILITIES IS UNCONSTITUTIONAL, THAT THE SALE IS A CONCEALED CREDIT AND THAT THEIR CALCULATIONS SHOW THAT BWB WOULD HAVE TO RAISE ITS PRICES BY AT LEAST 38 PERCENT IN 2884 AND IS THUS AT THE EXPENSE OF THE ELECTORATE.

## COMMENT

6. THE SELECTION OF THE RWE/VIVENDI/ALLIANZ CONSORTIUM REPEATS A PATTERN ESTABLISHED IN PREVIOUS PRIVATIZATIONS IN BERLIN. EACH RESULTED IN A SALE TO A CONSORTIUM COMSISTING OF ONE FOREIGN SPECIALIST BIODER AND AT LEAST ONE GERMAN PARTMER WITH OPERATIONAL EXPERIENCE IN THE COUNTRY. IN ALL CASES THE WINNING

### UNCLASSIFIED

### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE 82 OF 82 MID=199916681789 843815 15/15382
CONSORTIUM MADE COMMITMENTS THAT WENT FAR BEYOND THE NARROW SCOPE
OF THE UTILITY CONCERNED. BERLIN HAS SPEARHEADED PRIVATIZATIONS
OF MUNICIPAL UTILITIES SO THAT THE EXPERIENCE GAINED IN THE TOTAL MAY SERVE AS A MARKER FOR OTHER MUNICIPAL UTILITIES SALES IN THE
FUTURE. THESE FACTORS WILL CERTAINLY PLAY A ROLE IN FUTURE
BERLIN PRIVATIZATIONS - E.G. THE PUBLIC TRANSPORT SYSTEM, THE
REFUSE DISPOSAL UTILITY, AND THE PORT AUTHORITY.

7. THE LARGE BID FOR A MIMORITY SHARE IN BWB SURPRISED UNCLAS SECTION 82 OF 82 BERLIN 881192

DEPARTMENT FOR EB AND EUR/AGS

USDOC FOR 6188/ITA/TD/B1/JRASMUSSEN
USDOC FOR 4212/ITA/MAC/ONE/BLTONLINSON

E.O. 12958: N/A TAGS: ECON, EFIN, EINV, PGOV. GM SUBJECT: BERLIN: GERMANY'S FIRST MAJOR WATERWORKS PRIVATIZATION; U.S. FIRM ENRON LOSES TO FRANCO-GERMAN CONSORTIUM

OBSERVERS, WHO HAD BELIEVED THAT THE CITY WOULD BE LUCKY TO ACHIEVE THE DM 2 BILLION IN 1998. THE HIGH BID PRICE SEEMS TO BE THE COST FOR A STRATEGIC GATEWAY TO CENTRAL AND EASTERN EUROPE AS WELL AS INTO THE NATIONAL WATER MARKET.

8. DEUTSCHE BANK HAS ESTIMATED A NEED FOR APPROXIMATELY DM 388 BILLION FOR INVESTMENTS IN THE WATER SECTOR IN GERMANY OVER THE NEXT FEW YEARS, MAINLY IN THE EVER MORE DERELICT PIPELINE INFRASTRUCTURE. ABOUT 6.888 MUNICIPALLY-OWNED COMPANIES NOW OPERATE THE WATER AND EFFLUENTS HANDLING SECTOR WITH THE BENEFIT OF AREA MONOPOLY STRUCTURES AND FOR CONSUMER PRICES WHICH ARE AMONG THE HIGHEST IN EUROPE. GROWING BUDGETARY CONSTRAINTS MAKE IT UNLIKELY, HOWEVER, THAT THESE MUNICIPAL OPERATORS WILL BE ABLE TO RAISE THE FUNDING NECESSARY FOR SUCH INVESTMENTS IN THE FUTURE ON THEIR OWN SO THAT THE DOOR WILL BE OPENED - HOWEVER, UNWILLINGLY - TO COMMERCIAL OPERATORS IN THE MEAR FUTURE. SUCH PRIVATIZATIONS, HOWEVER, ARE LIKELY TO REMAIN CONTROVERSIAL.

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### CONFIDENTIAL

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# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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MID=199988988316

077154

30/00567

CAVEAT (S) =

HANDLE VIA ACTION = (TRS1801(1), G1(1), ICM(1), IDC(1), IMB(1), INL(1), ITL(1) OIMF (1) , QC (1) , SEN (-)

CRC = A224

PTTCZYUW RUEHLPA1318 #8118#3-CCCC--RUEATRS. ZNY CCCCC ZZH (CCY ADB1F94F MS15383 685) P 221883Z MAR 99 FM AMEMBASSY LA PAZ TO RUEHC/SECSTATE WASHDC PRIORITY 9538 RUCPDOC/DEPT OF COMMERCE WASHDO INFO RUEHAC/AMEMBASSY ASUNCION 8226 RUEHBR/AMEMBASSY BRASILIA 8768 RUEHBU/AMEMBASSY BUENOS AIRES 4951 RUEHPE/AMEMBASSY LIMA 3718 RUEHSG/AMEMBASSY SANTIAGO 2466 RUEHSO/AMCONSUL SAG PAULO 8315 CONFIDENTIAL LA PAZ 881318

CORRECTED COPY (CORRECTED TEXT THROUGHOUT)

MID=199988988316

977154 38/98567

INTRODUCED INTO THE BOLIVIAN CONGRESS IN JANUARY WITH STRONG SUPPORT FROM THE BANZER ADMINISTRATION. THE LAW, REQUIRED BECAUSE ARTICLE 25 OF THE BOLIVIAN CONSTITUTION PROHIBITS FOREIGNERS FROM OWNING OR HAVING RIGHTS OVER LAND WITHIN SØ KILOMETERS OF THE RORDER EXCEPT IN THE CASE OF "NATIONAL NECESSITY," WILL CREATE 11 CORRIDORS FOR INFRASTRUCTURE PROJECTS LINKING BOLIVIA WITH ITS NEIGHBORS. THE MOST IMMEDIATE BENEFICIARY WILL BE THE ENRON/SHELL CONSORTIUM TRANSREDES: WHICH CAN NOW MOVE FORWARD WITH CONSTRUCTION OF THE CUIABA GAS PIPELINE.

[(b)(1)]

USDOC FOR 4331/ITA/OSA

E.O. 12958: DECL: OADR TAGS: EINV. ENRG. EPET, PGOV. BL SUBJECT: "THE HEART OF SOUTH AMERICA" LAW: BUSINESS SUCCESS

REFS: A. STATE 49158; B. LA PAZ 6779; C. 98 LA PAZ 4996

- CLASSIFIED BY AMBASSADOR HRINAK; REASONS: 1.5 ID;.
- 2. (SBU) SUMMARY: AFTER THREE WEEKS OF INTENSE LOBBYING BY THE EMBASSY IN SUPPORT OF ENRON, THE BOLIVIAN CONGRESS ON MARCH 18 APPROVED THE LEY CORAZON, OR "HEART OF SOUTH AMERICA" LAW, ALLOWING FOREIGN OWNERSHIP OF INFRASTRUCTURE WITHIN 50 KILOMETERS OF BOLIVIA'S BORDERS. THE LAW OPENS THE WAY FOR ENRON TO CONSTRUCT THE GAS PIPELINE SPUR TO CUIABA, BRAZIL (REF C). OTHER BENEFICIARIES INCLUDE WILBROS, WHICH PLANS A SOLIDS PIPELINE FROM LA PAZ TO ILO, PERU; AND NRG, INC., WHICH THROUGH ITS LOCAL SUBSIDIÁRY COBEE: HOPES TO LINK BOLIVIAN ELECTRICITY GENERATORS AND THE BRAZILIAN GRID. END SUMMARY.
- 3. (U) THE LEY CORAZON, SO NAMED BECAUSE IT IS DESIGNED TO MAKE BOLIVIA THE ENERGY, HYDROCARBONS, AND TELECOMMUICATIONS HEART OF SOUTH AMERICA, WAS

5. (SBU) WHILE ENRON HAD THE MOST TO LOSE FROM DELAY (THE BRAZILIAN PERMIT FOR THE ELECTRICITY GENERATION PLAN IN CUIABA FIXED A SPECIFIC DATE IN OCTOBER BY WHICH THEY HAD TO CONVERT FROM DIESEL TO GAS AND A FINE OF UP TO \$588,000 FOR EVERY DAY ITS COMPLETION IS DELAYED BEYONG THAT DATE), OTHER US INTERESTS WILL ALSO BENEFIT. ONE OF THE CORRIDORS WILL PERMIT WILBROS' CONSTRUCTION OF THE SOLIDS PIPELINE FROM LA PAZ TO ILO, PERU (REF B). IN ADDITION, NRG, INC., CO-OWNER WITH THE SWEDISH VATTENFALL OF THE BOLIVIAN POWER COMPANY (COBEE), PLANS TO CONSTRUCT A GENERATING PLANT NEAR THE BORDER TO SELL ELECTRICITY TO BRAZIL. THE LAW ALSO GIVES THE GREEN LIGHT TO THE TELEPHONE COMPANY ENTEL'S (OWNED BY THE ITALIAN FIRM STET) FIBER-OPTIC LINK TO THE TRANSOCEANIC DROP IN PERU.

[(b)(1)]

# CONFIDENTIAL

# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT



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MID=199988288846

23/11217 973167

CAVEAT (S) = HANDLE VIA

ACTION = [TRS]BOI (1), BTF (1), CALL (3), GI (1), ICC (1), IDC (1), IMB (1) ITF (1) . ITI (1) . O IMF (1) . QC (1) . SEN (-)

CRC = 15FB

OO RUEATRS DE RUEHVB #1323/81 9821181 7NR UUUUU 77H 0 2311Ø1Z MAR 99 FM AMEMBASSY ZAGREB

TO RUCPDOC/USDOC WASHDC IMMEDIATE RUEHC/SECSTATE WASHOC IMMEDIATE 7583 INFO RUEHLO/AMEMBASSY LONDON IMMEDIATE 0117 RUEHMO/AMEMBASSY MOSCOW IMMEDIATE 8754

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S

UNCLAS ZAGREB 891323

SENSITIVE

USDOC FOR 4888/MAC/AS/MULLOY

USDOC FOR 4232/MAC/EUR/EERIS/CEEBIC/BURGESS/ROBERTS

USDOC FOR 6888/TD/AC/NUCENT

USDOC FOR 3133/USFCS/010/EUR/POZA/KOZLOFF

STATE FOR E (U/S EIZENSTAT) AND EUR/SCE (MESSENGER): S/R (GELBARD)

STATE PLEASE PASS TO USTR/NOVELLI AND KLEIN

LONDON AND MOSCOW FOR USFCS/SCO

E. O. 12958: N/A TAGS: ENRG, EINV, BEXP, PGOV, HR SUBJECT: GOC AGREES TO FINAL MEETING WITH ENRON

1. (U) THIS CABLE CONTAINS INFORMATION WHICH IS SENSITIVE BUT UNCLASSIFIED (SBU). PLEASE TREAT ACCORDINGLY.

#### SUMMARY

(SBU) THE AMBASSADOR AS SECURED THE AGREEMENT OF THE PRESIDENT'S OFFCE FOR A HIGH-LEVEL MEETING BETWEEN THE GOC AN ENRON ON MARCH 25 TO RESOLVE QUESTIONS RELATE TO THE DRAFT POWER PURCHASE AGREEMENT (PPA). AN INTERNAL GOC EXPERT GROUP RECENTLY DETERMINED HAT ENRON'S OFFER IS TOO COSTLY. STILL, TH PRESIDENT HIMSELF REMAINS INTERESTED IN COMPLETING THE DEAL SUCCESSFULLY. THE AMBASSADOR INSISTED ON TWO

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COMMITMENTS FROM PRESIDENTIAL ADVISOR IVICA PASALIC WITH RESPECT TO THE MEETING: (1) THE CROATIAN ELECTRIC COMPANY (HEP) MUST BE PREPARED TO DISCUSS SPECIFIC CONCERNS/ISSUES OVER PRICING RATHER THAN CAST RANDOM ALLEGATIONS; (2) THE GOC MUST DELIVER A FINAL DECISION AT THE CLOSE OF THE MEETING INO ADDITIONAL GOVERNMENT REVIEWS/APPROVALS WOULD BE REQUIRED). THE PRESIDENT HAS APPOINTED PRIME MINISTER MATESA TO OVERSEE THE MEETING ON THE GOC SIDE AND CHIEF OPERATING OFFICER (COO) JOSEPH SUTTON WILL REPRESENT ENRON.

3. (SBU) POST IS CONVINCED THAT THE PRESIDENT IS COMMITTED TO THIS DEAL AND SEEKS CLOSURE PRIOR TO THE PLANNED GOC EVENTS IN CHICAGO (EARLY APRIL). STILL: HEP (AND POSSIBLY OTHER LOWER RANKED OFFICIALS) REMAIN OPPOSED AND HAVE CONTINUED TO OBSTRUCT THE PROCESS. THIS MEETING MIGHT FINALLY PUSH ASIDE THIS OPPOSITION, RESULTING IN AN INITIALLED PPA. ON THE OTHER HAND, IT COULD END WITH ENRON'S DEPARTURE FROM THE PROJECT. END SUMMARY.

#### INITIALLING OF DRAFT PPA STALLED

4. (U) ON MARCH 1, ENRON AND HEP COMPLETED WORK ON THE DRAFT PPA ONOTE: ONLY THE GAS PRICE WAS LEFT BLANK, PER PREVIOUS AGREEMENT, TO BE FILLED-IN AT A LATER DATE WHEN ENRON SECURED A LOWER GAS PRICE FROM GAZPROM). SINCE THEN, HEP HAS REFUSED TO INITIAL THE DOCUMENT. IN EMRON'S VIEW, THE DRAFT PPA HAD BEEN FINISHED. HOWEVER: HEP DID NOT SEE ALL ITS CONCERNS ADDRESSED IN THE DRAFT PPA. MINISTER OF ECONOMY MENAD PORGES AND HEP GENERAL MANAGER DAMIR BEGOVIC INSISTED THAT THE DRAFT PPA ENCOMPASSED THE ESSENCE OF THE OVERALL DEAL AND, THEREFORE, REQUIRED APPROVAL AT THE GOVERNMENT SESSION. IN THE MEANTIME, AN INTERNAL GOC EXPERT GROUP ADVISED PRESIDENT TUDIMAN LAST WEEK THAT ENRON'S PROPOSED PRICE WAS TOO HIGH. (NOTE: ENRON DOES NOT NECESSARILY DISAGREE WITH THE GOC/HEP'S DETERMINATION. ENROW REQUIRES THE INITIALLED DRAFT PPA IN ORDER TO SECURE A LOWER GAS PRICE FROM GAZPROM. A LOWER GAS PRICE WILL REDUCE THE OVERALL COSTS AND PRICE OF ELECTRICITY.)

PRESIDENT'S OFFICE AGREES TO HIGH-LEVEL MEETING

5. (SBU) FRUSTRATED WITH THE PROCESS (AND LACK OF PROGRESS), ENROW BECAME VERY ACTIVE, DISCUSSING THE SITUATION WITH CROATIAN AMBASSADOR ZUZUL, CONTACTING THE PRESIDENT'S OFFICE AND SENDING A LETTER TO THE

## UNCLASSIFIED

### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

23/11212

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PRESIDENT HIMSELF. IN THE MEANTIME, THE AMBASSADOR
ENGAGED PRESIDENTIAL ADVISOR IVICA PASALIC ON THIS
ISSUE CHARCH 18-19). PASALIC UNDERSTOOD HOW THE GAS
PRICE PLAYS INTO THE OVERALL FINAL COST/PRICE STRUCTURE
AND THE NEED TO OBTAIN THE GAS PRICE REDUCTIO FROM
GAZPROM BEFORE MAKING FINAL CALCULATIONS. HILE HE
EXPRESSED BOTH HIS AND THE PRESIDENT'S SPPORT FOR THE
PROJECT, PASALIC ALSO INDICATED TH DIFFICULTY IN
OVERCOMING OPPOSITION BASED ON ARGMENTS OF EXCESSIVE
PRICING.

- 6. (SBU) PASALIC AGREED TO ORGANIZE A HIGH-LEVEL MEETING BETWEEN THE GOC AND ENRON THAT WOULD ONCE-AND-FOR-ALL RESOLVE THESE QUESTIONS. THE AMBASSADOR INSISTED ON TWO COMMITMENTS FROM PASALIC REGARDING THIS MEETING. FIRST, HEP MUST DISCUSS SPECIFICS RATHER THAN SPEAK IN GENERALITIES OTHERWISE ENRON WOULD BE TRYING TO RESPOND TO A MOVING TARGET. SECOND, THE OUTCOME OF THIS MEETING MUST RESULT IN A FINAL DECISION. IN OTHER WORDS, THERE SHOULD BE NO NEED FOR MORE GOVERNMENT REVIEWS/APPROVALS (THIS WOULD ONLY OPEN THE DOOR TO ADDITIONAL VACILLATION). PASALIC ACCEPTED THESE POINTS.
- 7. (SBU) IN A SUBSEQUENT CONVERSATION WITH ENRON'S JOSEPH SUTTON LATER ON MARCH 19, THE AMBASSADOR STRESSED THE NEED FOR SUITON'S PERSONAL PRESENCE AT THE MEETING. THE AMBASSADOR ALSO SUGGESTED THAT ENRON REQUEST THE PRESIDENT TO SELECT A TRUSTED ADVISOR WHO WOULD REPORT DIRECTLY BACK TO TUDJMAN ON THE TONE/CONDUCT OF THE MEETING. THE AMBASSADOR WAS INFORMED THE NEXT DAY BY TUDJMAN HIMSELF THAT PRIME MINISTER MATESA HAS BEEN APPOINTED TO PARTICIPATE IN THE MEETING.

# COMMENT

- 8. (SBU) POST REMAINS CONVINCED THAT THE PRESIDENT IS COMMITTED TO THE SUCCESSFUL COMPLETION OF THE ENRON DEAL. IN HIS MARCH 11 MEETING WITH S/R GELBARD, TUDJMAN EXPRESSED HIS SUPPORT FOR THE PROJECT. AGAIN, ON MARCH 28, TUDJMAN PULLED THE AMBASSADOR ASIDE FROM THE MEETING WITH SFOR COMMANDER GENERAL MEIGS AND STATED (WITH STRONG PHYSICAL GESTURING) THAT THIS DEAL WILL GO THROUGH.
- 9. (SBU) THIS MAY BE THE PRESIDENT'S WILL BUT IT IS ALSO A FACT THAT HEP CONTINUES TO OBSTRUCT. THE GAP BETWEEN THE UPPER AND LOWER LEVELS HAS NOT BEEN BRIDGED

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-- AT LEAST NOT YET. THE SCHEDULED HIGH-LEVEL MEETING MAY BE ABLE TO ACCOMPLISH JUST THAT -- ESSENTIALLY, THE BRUSHING ASIDE OF THE OPPOSITION. IF SO, THE DRAFT PPA WILL BE INITIALLED BY WEEK'S END. IF THE MEETING IS NOT SUCCESSFUL, ENRON MIGHT HAVE TO DECIDE WHETHER TO PURSUE THE PROJECT FURTHER OR WITHDRAW. END COMMENT.

(ORIGIN: USFCS/HUGHES)

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### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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PAGE 01 OF 02

MID=1999@98@0358

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CAVEAT (S) =

ACTION = (TRS1BO1 (1).CALL (3).FCEN (1).GGR (1).GI (1).1ADB (1).4BRD (1).

1DB (1).1DC (1).1DD (1).1MB (1).1MF (1).1NL (1).1TF (1).1TI (1).01MF (1)...

QC (1).SEN (-).XAA (1).XLI (1)

CRC = 9183

RTTUZYUW RUEHSOA@569 @97182@-UUUU--RUEATRS. ZNR UUUUU ZZH R 871828Z APR 99 FM AMCONSUL SAO PAULO TO RUEHC/SECSTATE WASHDC 2581 RUEHBR/AMEMBASSY BRASILIA 2578 RUEHRI/AMCONSUL RIO DE JANEIRO 1145 RUEHRG/AMCONSUL RECIFE 9838 RUEATRS/DEPT OF TREASURY WASHDC RUCPDC/USDOC WASHDC RUEHBU/AMEMBASSY BUENOS ALRES Ø195 RUEHMM/AMEMBASSY MONTEVIDEO 0126 RUEHAC/AMEMBASSY ASUNCION 0883 RUEHSG/AMEMBASSY SANTIAGO 8895 RUEHLP/AMEMBASSY LA PAZ 0098 UNCLAS SAO PAULO 888569

DEPT OF TREASURY FOR MMCGREW
USDOC FOR 4322/ITA/IEP/WH/OLAC-SC
USDOC FOR 3234/USCS/OIO/WH
STATE PASS EXIMBANK FOR STEVE THOMPSON
STATE PASS OPIC FOR DMORONESE

E.O.-12958: N/A
TAGS: ECON, EINV, EFIN, ENRG, BR
SUBJECT: INTEREST IN COMGAS PRIVATIZATION APPEARS
STRONG; SALE EXPECTED TO BRING IN A PREMIUM

REF: RIO DE JANEIRO 8283

- 1. SUMMARY: BRAZIL'S FIRST MAJOR PRIVATIZATION OF 1999 WILL TAKE PLACE ON APRIL 14, WHEN COMGAS, THE STATE OF SAO PAULO PIPED-GAS DISTRIBUTION COMPANY, WILL BE AUCTIONED. SAO PAULO ANALYSTS BELIEVE THAT, AT A MINIMUM, THREE TO FIVE BIDS WILL BE TENDERED FOR COMGAS, PRIMARILY FROM FOREIGN CONSORTIUMS. ALSO ANALYSTS ANTICIPATE THAT A PREMIUM ABOVE THE MINIMUM PRICE OF R\$ 896.5 MILLION GUS\$ 521 MILLION) WILL BE OFFERED. END SUMMARY.
- BRAZIL'S FIRST MAJOR PRIVATIZATION OF 1999 WILL TAKE PLACE ON APRIL 14, WHEN COMGAS WILL BE AUCTIONED (REFTEL INCLUDES DETAILS ON MINIMUM PRICE, COMPANIES INTERESTED, SERVICE AREA, AND CUSTOMER BASE). PRIOR TO THE DEVALUATION OF THE REAL, THE NATIONAL BANK OF ECONOMIC

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AND SOCIAL DEVELOPMENT (BNDES) ESTIMATED THAT
PRIVATIZATIONS FOR 1999 WOULD BRING IN US\$ 28 BILLION;
HOWEVER IN THE RECENT AGREEMENT WITH THE INTERNATIONAL
MONETARY FUND (IMF) THAT FIGURE HAS FALLEN TO. US\$ 16
BILLION. DESPITE THE DEVALUATION AND WORRIES ABOUT
BRAZIL'S ECONOMY, SAO PAULO STATE COVERNMENT OFFICIALS,
ENERGY-SECTOR ANALYSTS AND BOVESPA OFFICIALS TOLD ECONOFF
THAT COMGAS REMAINS AN ATTRACTIVE INVESTMENT.

- 3. MITH THE NEW BRAZIL-BOLIVIA GAS PIPELINE TO ENSURE AN INCREASED AND STEADY SUPPLY OF NATURAL GAS TO THE REGION, SAO PAULO ANALYSTS BELIEVE THAT COMGAS HAS VERY HIGH GROWTH POTENTIAL. HOWEVER, THE NEW OWNER WILL HAVE TO INVEST TO BUILD UP ITS DISTRIBUTION NETWORK AND INCREASE ITS RESIDENTIAL CUSTOMER BASE.
- 4. ALL INTERLOCUTORS MENTIONED THAT FOREIGN GAS COMPANIES HAD DEMONSTRATED THE MOST INTEREST IN THE SALE OF COMGAS. MAJOR CONTENDERS INCLUDE: SHELL. MHO ALREADY OWNS 20% OF COMGAS'S COMMON STOCK; AGIP, AN ITALIAN GAS COMPANY ALREADY OPERATING IN BRAZIL; AND ENROW, A U.S. GAS COMPANY THAT PARTICIPATED IN BUILDING THE BRAZIL BOLIVIA GAS PIPELINE AND HAS SUBSTANTIAL EQUITY 15% ON THE BRAZIL SIDE AND 21% ON THE BOLIVIAN SIDE) IN IT.
- 5. THE PROCEEDS FROM THE SALE OF COMGAS WILL GO TO COMGAS' PARENT, THE ELECTRIC COMPANY OF SAO PAULO (CESP). CESP WILL USE THE MONEY TO LIQUIDATE A PORTION OF ITS OWN DEBTS IN PREPARATION FOR THE PRIVATIZATION OF THREE CESP GENERATING FACILITIES, THAT WILL TAKE PLACE IN MAY AND JUNE OF 1999. IN TURN, THE MONEY FROM THE SALE OF CESP'S GENERATING FACILITIES WILL BE USED TO PAY SAO PAULO STATE DEBENTURES, A PORTION OF WHICH COME DUE IN JUNE. THE INTERLOCUTORS INDICATED THAT THIS IS MHY THE SALE OF COMGAS WOULD GO FORWARD AS PLANNED.
- 6. THE APRIL COMGAS PRIVATIZATION IS EXPECTED TO BE THE FIRST OF SEVERAL PRIVATIZATIONS FOR THE RIGHTS TO DISTRIBUTE PIPED GAS IN SAO PAULO STATE. THE GEOGRAPHICAL AREA INCLUDES GREATER SAO PAULO, SANTOS AND THE PARAIBA VALLEY. THIS REGION IS THE ONLY PLACE WHERE COMGAS ALREADY HAS A DISTRIBUTION NETWORK, THOUGH MODESTLY DEVELOPED, IN PLACE. THE REST OF THE STATE IS CURRENTLY ONLY SERVICED BY BOTTLED GAS. ANALYSTS TOLD ECONOFF THAT THE BRAZIL-BOLIVIA PIPELINE, WHICH BISECTS THE STATE AS IT RUNS FROM THE STATE'S WESTERN BORDER EAST ALMOST TO THE COAST, WILL MAKE IT FEASIBLE TO PROVIDE PIPED NATURAL GAS SERVICE TO VIRTUALLY THE ENTIRE STATE. FUTURE AUCTIONS OF RIGHTS TO DISTRIBUTE GAS BY PIPE TO OTHER PARTS OF THE STATE ARE EXPECTED WITH PROCEEDS GOING DIRECTLY INTO SAO PAULO STATE COFFERS.

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CAVEAT (S) =

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ACTION = (TRS)801 (1) . G1 (1) . ICM (1) . (DC (1) . IMB (1) . ITF (1) . ITI-55)

OIMF (1) , QC (1) , SEN (-)

CRC = 88FØ

RR RUEATRS

DE RUEHKT #8965 1898527

ZNR UUUUU ZZN

R 198527Z APR 99

FM AMEMBASSY KATHMANDU

TO RUEHC/SECSTATE WASHDC 9153

INFO RUCPDOC/USDOC WASHDC

RUEHKA/AMEMBASSY DHAKA 2763

RUEHNE/AMEMBASSY NEW DELHI 8829

RUEHIL/AMEMBASSY ISLAMABAD 3232

RUEHLM/AMEMBASSY COLOMBO 6756

RUEHLO/AMEMBASSY LONDON 8191

RHHMUNA/USCINCPAG HONOLULU HI//J2/J3/J5//

UNCLAS KATHMANDU ØBØ965

STATE FOR SA/INS AND EB LONDON FOR SUTPHIN USDOC FOR 4538/IEP/ANESA/ONE

SENSITIVE

E. B. 12958: N/A

TAGS: EINV, BEXP, ENRG, PREL, NP

SUBJECT: PARTY LEADERS ENDORSE ENRON PROJECT

REF: KATHMANDU 88167

1. THIS CABLE CONTAINS PROPRIETARY INFORMATION. PLEASE PROTECT ACCORDINGLY.

(SBU) SUMMARY: LEADERS OF MEPAL'S TWO LARGEST PARTIES HAVE RECENTLY MADE CAMPAIGN STATEMENTS SUPPORTING THE DEVELOPMENT OF THE LO-808 MEGAWATT KARNALI-CHISAPANI HYDROELECTRIC PROJECT BY ENRON. THE STATEMENTS, BY TWO FORMER PRIME MINISTERS, CONFIRM THAT PROSPECTS FOR THE AWARD OF A SURVEY LICENSE TO ENROW REMAIN GOOD, REGARDLESS OF WHICH PARTY FARES BEST IN THE UPCOMING MAY 1999 PARLIAMENTARY ELECTIONS. ENRON IS EXPECTED TO RESUBBLIT ITS SITE SURVEY LICENSE APPLICATION FOR THE PROJECT AFTER IT COMPLETES A REVIEW OF ITS REGIONAL POWER DEVELOPMENT STRATEGY. END SUMMARY.

3. (U) FORMER NEPAL CONGRESS PRIME MINISTER SHER BAHADUR DEUBA AND FORMER COMMUNIST PARTY OF MEPAL - UNITED MARXIST-LENINIST (UML) PRIME MINISTER

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811259 19/97882

MAN MCHAN ADHIKARY HAVE PUBLICLY ENDORSED DEVELOPMENT OF THE KARNALI RIVER'S HYDROELECTRIC CAPACITY IN RECENT CAMPAIGN STATEMENTS IN THE REGION. PRESS REPORTS LAST WEEK QUOTED ADHIKARY AS STATING SPECIFICALLY THAT THE UML WOULD APPROVE ENRON'S PROPOSAL TO DEVELOP THE 18,888 MEGAMATT KARNALI-CHISAPANI PROJECT. DEUBA WAS QUOTED IN "THE KATHMANDU POST" APRIL 18 SAYING, "IF WE SUCCEED IN DEVELOPING THE KARNALI PROJECT, WE CAN END POVERTY AND UNEMPLOYMENT" IN NEPAL.

4. (SBU) ENRON, MEANWHILE, HAS NOT YET RESUBMITTED THE SITE SURVEY LICENSE REQUEST IT MADE IN JANUARY 1999 (REFTEL), WHICH THE GOVERNMENT OF NEPAL ASKED ENRON TO REVISE TO CONFORM WITH THE TECHNICAL SPECIFICATIONS OF NEPAL'S ELECTRICITY ACT. ENRON OFFICIALS HAVE INFORMED POST THAT THE COMPANY IS CURRENTLY EVALUATING ITS POWER DEVELOPMENT STRATEGY FOR THE ENTIRE SOUTH ASIAN REGION, AND WILL DECIDE SHORTLY HOW THE KARNALI PROJECT FITS INTO THAT STRATEGY.

BOGUE

BT

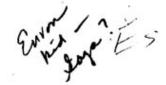
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CAVEAT (S) =

ACTION = (TRS1BOI (1) · GI (1) · IBRD (1) · ICM (1) · IDB (1) · IDC (1) · IDD (1) IF (1) · ITI (1) · ITI (1) · OIMF (1) · QC (1) · SEN (-)

CRC = 6A87

PP RUEATRS

DE RUEHTV #5856/81 3281319

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FM AMEMBASSY TEL AVIV

TO RUEHC/SECSTATE WASHDC PRIORITY 4522

INFO RUCPDOC/USDOC WASHDC

RHEBAAA/USDOE WASHDC

RUEHEG/AMEMBASSY CAIRO 3752

RUEHAM/AMEMBASSY AMMAN 8746

RUEHJM/AMCONSUL JERUSALEM 6224

BT

C O N F I D E N T I A L SECTION 81 OF 82 TEL AVIV 815866

STATE FOR NEA AND NEA/IAI, SMEC, NSC FOR REILLY/MALLEY

USDOC FOR 4528/ITA/MAC/ANESA/1/MWILLIAMSON 4528/ITA/MAC/ANESA/1/PTHANOS 3133/ITA/FCS/OIO/ANESA/TPARKER 4528/ITA/MAC/ANESA/1/TGILLMAN

PASS OPIC FOR MELISSA OBEGI, PAMELA BRACEY

E.O. 12958: DECL: 11/24/09 TAGS: ECON, ENRG, BEXP, EG, JO, ETRD, IS SUBJECT: DCM MEETING WITH ENRON

REF: A) TEL AVIV 14139; B) JERU 3274

CLASSIFIED BY DEPUTY CHIEF OF MISSION RICHARD A. ROTH FOR REASON 1.5 (8) & (D).

1. (C) SUMMARY. ENRON REPRESENTATIVES MET WITH THE EMBASSY TO REVIEW THE STATUS OF THE GAZA POWER PLANT PROJECT, AND TO NOTE THEIR INTEREST IN BIDDING ON THE MEXT ISRAELI INDEPENDENT POWER PLANT AND THE PIPELINE FOR NATURAL GAS. ME PROMISED FCS ASSISTANCE WITH ENRON'S NEW ENDEAVORS AND REITERATED THE NEED FOR ENRON TO PUSH THE PALESTINIANS TO PROVIDE ISRAEL WITH AN ENVIRONMENTAL IMPACT STUDY AND SITE LOCATION AS REQUIRED BY THE OSLO ACCORDS. ENRON ALSO DESCRIBED AN URGENT NEED FOR OPIC TO COMPLETE AND APPROVE ITS FINANCING PACKAGE. END SUMMARY.

#### GAZA POWER PLANT

2. IC: ENRON HIDDLE EAST PRESIDENT RICHARD BERGSIEKER,

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ISRAELI CONSULTANT UZI HALEVI, AMERICAN BUSINESS COUNCIL
PRESIDENT MAC MCCLELLAND, JR., AND ENROW PROJECT MANAGER
ANDREW MAKK MET ON MOVEMBER 18 WITH DCM, ECON COUNSELOR,
SENIOR COMMERCIAL OFFICER, AND EMBOFFS. THE DCM BEGAN
BY NOTING THAT IN HIS RECENT MEETING WITH [(b)(1)]

. IT WAS CLEAR THAT THE GOI NOW ACCEPTS THAT
THE PALESTINIANS WILL HAVE A POWER PLANT, AND WANTS TO
SEE THE PROJECT SUCCEED. THAT SAID, THE DCM REMINDED
ENRON THAT THE PA HAD YET TO COMPLY MITH THE OSLO
REQUIREMENTS, THE SUBMISSION OF AN ENVIRONMENTAL EMPACT
STUDY AND NOTIFICATION OF THE PLANT SITE.

- 3. (C) BERGSIEKER, NODDING IN AGREEMENT, SAID THAT HIS TEAM WOULD BE WORKING WITH THE CONGEN IN JERUSALEM TO FIND THE APPROPRIATE MANNER TO ENCOURAGE THE PA TO SUBMIT THE REQUIRED ITEMS. HE NOTED THAT THE ENVIRONMENTAL STUDY WAS DONE AND PROVIDED TO THE PA A WEEK EARLIER. HE HOPED THE PA WOULD SUBMIT THE ENTIRE DOCUMENT (OVER 500 PAGES) TO THE GOI AND NOT JUST A SUMMARY. BERGSIEKER EXPECTS NO ENVIRONMENTAL ISSUES TO ARISE ONCE THE STUDY IS SUBMITTED, AS THE PLANT WILL MEET OR EXCEED WORLD BANK GUIDELINES FOR AIR EMISSIONS, WATER, AND NOISE. AS TO THE SITE LOCATION, BERGSIEKER THOUGHT THAT ENRON MIGHT SUBMIT SPECIFICS ON THE SITE LOCATION TO MATAK DIRECTLY.
- 4. (C) ANOTHER ISSUE BERGSIEKER WAS HOPING WOULD SOON BE RESOLVED WAS THE OPIC REVIEW. BERGSIEKER STRESSED HOW IMPORTANT OPIC WAS TO ENROW, BECAUSE OF THE LEVEL OF DUE DILIGENCE THEY BRING TO A PROJECT. HE NOTED THAT THE INSURANCE PROCESS HAS BEEN RELATIVELY SMOOTH, BUT THE FINANCING WAS GONE SLOWER THAN HE EXPECTED. MAKK INTERJECTED THAT IT MIGHT BE BEST IF ENROW MET FACE-TO-FACE WITH OPIC TO DISCUSS ANY FINANCING ISSUES THAT NEED TO BE RESOLVED.
- IC) IN PREPARATION FOR FUTURE LOGISTICAL ISSUES LIKE MOVING TURBINES AND FUEL, BERGSTEKER MET WITH [(b)(1)]

BERGSIEKER EXPLAINED THAT ENRON'S AGREEMENT STIPULATES THAT THE PA WILL SUPPLY ENRON WITH LOW SULFUR DIESEL FUEL, UNTIL NATURAL GAS IS AVAILABLE. THIS FUEL WILL HAVE TO COME IN THROUGH THE ISRAELI PORT OF ASHKELON, AND THEN MOVE BY TRUCK TO THE POWER PLANT.

[(b)(1)] ADE CLEAR, BERGSIEKER RECOUNTED, THAT IF ENRON DID NOT COORDINATE CLOSELY WITH THE GOI, [(b)(1)] HAD THE ABILITY "TO MAKE LIFE MISERABLE." BERGSIEKER EMPHASIZED THAT HE WILL BE ASKING HIS PEOPLE TO KEEP THE GOI INFORMED IN ADVANCE OF ALL ISSUES THAT WILL REQUIRE ISRAEL1 COORDINATION.

6. (C) [(b)(1)]ALSO TOLD BERGSIEKER THAT THE ELECTRICAL GRID IN GAZA IS INCOMPATIBLE WITH THE ISRAELI

### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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GRID, AND THAT ONCE THE ENRON PLANT IS PRODUCING POWER
THE GOI WILL SHUT OFF POWER TO THE GAZA GRID. (NOTE:
THE PALESTINIANS HAVE TOLD ENRON AND US THAT THERE IS NO
COMPATIBILITY PROBLEM. END NOTE.) THIS CONCERNED
BERGSIEKER, BECAUSE THE PLAN WAS FOR ENRON TO TURN ON
EACH TURBINE AS IT IS INITIALLY INSTALLED, AND THE FIRST
TURBINE -- 28 MM IS DUE TO COME ON LINE NEXT SUMMER -CANNOT MEET THE TOTAL GAZA DEMAND. BERGSIEKER TOLD THE
DCM THAT HE WONDERED WHETHER COMPATIBILITY REALLY WAS A
C O N F I D E M T I A L SECTION 82 OF 82 TEL AVIV 815866

STATE FOR NEA AND NEA/IAI, SMEC, NSC FOR REILLY/MALLEY

USDOC FOR 4528/ITA/MAC/ANESA/I/MWILLIAMSON 4528/ITA/MAC/ANESA/I/PTHANOS 3133/ITA/FCS/OIO/ANESA/TPARKER 4528/ITA/MAC/ANESA/I/TGILLMAN

PASS OPIC FOR MELISSA OBEGI, PAMELA BRACEY

E.O. 12958: DECL: 11/24/89
TAGS: ECON, ENRG, BEXP, EG, JO, ETRD, IS
SUBJECT: DCM MEETING WITH ENRON

#### PROBLEM.

- 7. (C) THE DCM NOTED THAT GAZA AND ISRAEL COULD, IN TIME, DEVELOP AN INTERDEPENDENT ENERGY RELATIONSHIP, ALTHOUGH THE PA MAY NOT BE ABLE TO ACCEPT THIS NOW. HE EXPLAINED THAT THE PA BELIEVES THAT IF THERE IS EXCESS POWER TO SELL, THEY WILL SELL IT TO THE WEST BANK BEFORE SELLING IT TO ISRAEL. SENDING ELECTRICITY TO THE WEST BANK, HOWEVER, WILL NOT BE POSSIBLE FOR SOME TIME TO COME. THE DCM RECOMMENDED THAT ENRON LOOK CLOSELY AT THE GRID ISSUES FOR THEMSELVES. BERGSIEKER AGREED THAT THIS WAS NECESSARY.
- 8. (C) OVERALL, BERGSJEKER CATEGORIZED ENRON'S MEETINGS WITH THE GOI AS POSITIVE, AND NOTED THAT HE WAS HAPPY TO HEAR THAT THE GOI HOPES TO SEE, BUT IS NO LONGER REQUIRING, THE BUILDING OF A DESALINATION PLANT. BERGSJEKER REVIEWED ENRON'S INITIAL PLANS TO BUILD A DESALINATION PLANT ON THE SAME SITE AS THE POWER PLANT, BUT NOTED THAT ENRON HAS STILL NOT DETERMINED WHETHER IT CAN MAKE DESALINATION AFFORDABLE FOR GAZA. NEVERTHELESS, THE POWER PLANT IS BEING BUILT TO ACCOMMODATE A DESALINATION FACILITY.

## GAZA MINERAL RIGHTS

9. (C) THE DCM REVIEWED WITH THE ENROW TEAM THE RECENT DECISION OF THE GOT TO ALLOW THE PA TO EXPLOIT OFFSHORE GAZA NATURAL GAS DEPOSITS AND THE PA INTEREST IN AN MID=199932881588 B56525

AMERICAN COMPANY TO EXPLOIT THESE RESOURCES, EITHER IN
TANDEM WITH BRITISH GAS OR SEPARATELY (REF B). MAKK AND
BERGSIEKER SAID THAT ENRON WAS NOT INTERESTED IN
ORILLING FOR GAS, BUT MANTED TO SECURE THE FLOW OF THE
GAS TO AN OFFSHORE FACILITY TO ENSURE DISTRIBUTION TO
THE GAZA POWER PLANT AS WELL AS TO ISRAEL. ENRON WOULD
BE INTERESTED IN BUILDING CONNECTING INFRASTRUCTURE
BETWEEN THE WELL AND THE PLANT.

24/13327

#### ISRAELI PIPELINES, TOO

18. (C) BERGSIEKER SAID ENRON IS ALSO INTERESTED IN BUILDING THE PROPOSED ISRAELI ONSHORE FACILITY AND INTERNAL PIPELINE FOR TRANSPORTING NATURAL GAS.
BERGSIEKER ASKED FOR OUR ASSISTANCE IN LEARNING ABOUT OPPORTUNITIES TO PLAY A ROLE IN DEVELOPING THESE PIPELINES, EITHER IN TANDEM WITH OTHER COMPANIES OR INDEPENDENTLY. HE HAD HEARD THAT THREE OF THE COMPANIES PRE-QUALIFIED TO BUILD THE ISRAELI PIPELINE WERE DISQUALIFIED, BECAUSE THEY HAVE BOTH UPSTREAM AND DOWNSTREAM INTERESTS. BERGSIEKER WONDERED IF THE DISQUALIFICATIONS MIGHT CREATE AN OPENING FOR ENRON. THE SCO PROMISED TO FOLLOW UP WITH ENROW REPRESENTATIVES.

#### INDEPENDENT POWER PRODUCTION (IPP) IN ISRAEL

10. (C) BERGSIEKER ASKED ABOUT THE ISRAELI IPP MARKET.
WE SAID THAT ALTHOUGH ISRAELI LAW REQUIRES
PRIVATIZATION, PROGRESS TOWARDS THIS GOAL IS STILL
STALLED. ALTHOUGH THE SITUATION COULD IMPROVE AT ANY
TIME, WE POINTED OUT THAT THE MINISTRY OF NATIONAL
INFRASTRUCTURE HAS BEEN PROMISING THE SECOND IPP TENDER
EVERY MONTH SINCE APRIL, BUT HAS YET TO RESOLVE LEGAL
WRANGLING ON EVEN THE FIRST TENDER. BERGSIEKER ASKED FOR
OUR ASSISTANCE IN BECOMING PRE-QUALIFIED FOR THE SECOND
IPP TENDER AT ALLON TAVOR, AND THE SCO PROMISED TO
FOLLOW UP WITH ENRON REPRESENTATIVES.

MALKER BT #5066 6A87 WNNN

### UNCLASSIFIED

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### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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CAVEAT (S) =

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ACTION = (TRS]801 (1), CALL (3), EPD (1), G1 (1), IBRD (1), IDB (1), IDC (1) IMB (1) . (NA (1) . (TF (1) . (T) (1) . (TN (1) . O(MF (1) . QC (1) . SEN (-) . XAA (1) ? XI, 1 (1)

CRC = EBBS

RR RUEATRS

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ZMR UUUUU ZZH

R 271825Z AUG 98

FM AMEMBASSY HANDI

TO RUEHC/SECSTATE WASHDC 3448

INFO RUEHBJ/AMEMBASSY BEIJING 2397

RUEHML/AMEMBASSY MANILA 8471 RUEHBK/AMEMBASSY BANGKOK 6991

RHHMUNA/USCINCPAC HONOLULU HI//J5/FPA/JTF-FA//

RUCPDOC/USDOC WASHDC

RUEATRS/DEPTTREAS WASHDC

RUEKJCS/SECDEF WASHDC

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UNCLAS SECTION B1 OF B2 HANOI BB2957

SENSITIVE

STATE PASS TO USTR/DAMOND/BELASSA, OPIC, AND EXIMBANK STATE ALSO FOR EAP/BCLTV, EB/IFD/OIA, EB/IFD/ODF STATE ALSO FOR AID/ANE TREASURY ALSO FOR PATRICK STUART SECDEF ALSO FOR ISA/EA/LSTERN USDOC ALSO FOR 4431/MAC/IEP/OKSA/HPPHO USDOC ALSO FOR !TA/TD/OTEA/JJANICKE AND !TA/TD/SIF/CHUIR USDA/FAS ALSO FOR FAA/AD/SSAP/BEEGLEY AND KD/WAGNER USDA ALSO FOR FAS/FAA/AO; FAS/ITP/ODA; FAS/ITP/ADD

E.O. 12958: N/A TAGS: ENRG, EINU, BEXP

SUBJECT: ENRON'S PROPOSED BOT POWER PROJECT AT SOC

TRANG

REF: HANO1 2236

1. (SBU) SUMMARY: ENRON IS ENCOURAGED BY WHAT APPEARS TO BE A NEW ATTITUDE BY THE GOVERNMENT TOWARD ITS PROPOSED BUILD-OPERATE-TRANSFER (BOT) POWER PROJECT IN THE MEKONG DELTA. THE GOVERNMENT APPEARS TO REALIZE IT NEEDS THE POWER AND ISSUED AN INSTRUCTION IN EARLY AUGUST FOR MINISTRIES AND AGENCIES TO RESOLVE PROBLEMS AND REACH FINAL AGREEMENT BY MID-DECEMBER. A MAJOR PROBLEM HAS BEEN THE CONTRACT COULD CAUSE THE STATE-OWNED POMER COMPANY TO LOSE MONEY, DEPENDING ON HOW THE

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GOVERNMENT REGULATES ELECTRICITY PRICES PAID BY CONSUMERS. ENROW BELIEVES WORLD BANK INVOLVEMENT IN ELECTRIC POWER PROJECTS HAS ENCOURAGED ANTICOMPETITIVE BEHAVIOR. END SUMMARY

- 2. (U) ENRON OFFICIAL ROBERT BALDWIN VISITED EMBASSY ECONOMIC SECTION AUGUST 21 TO REPORT LATEST IN THE COMPANY'S EFFORTS TO GET THE GVN TO MOVE AHEAD WITH ITS PROPOSAL TO BUILD A SOUMW COMBINED CYCLE GAS TURBINE POWER PLANT IN SOC TRANG PROVINCE IN THE MEKONG DELTA.
- 3. (SBU) BALDWIN WAS MUCH MORE UPBEAT THAN IN THE MEETINGS IN JUNE: (SEE REF): AS HE DISPLAYED A GOVERNMENT DIRECTIVE DATED AUGUST 8 INSTRUCTING THE MINISTRIES OF INDUSTRY, PLANNING, SCIENCE, FINANCE, TRADE, THE STATE BANK, ELECTRICITY OF VIETNAM, PETROVIETNAM, AND THE SOC TRANG PEOPLE'S COMMITTEE TO NEGOTIATE AND REACH AGREEMENT WITH ENRON ON THE BOT CONTRACT: LAND ALLOCATION: AND OTHER AGREEMENTS BY MID-DECEMBER: SUBJECT TO SEVERAL CONDITIONS (ENRON CONSIDERS THE CONDITIONS TO BE ACCEPTABLE). THE MINISTRY OF INDUSTRY WAS INSTRUCTED TO COOPERATE WITH THE MINISTRY OF PLANNING AND INVESTMENT TO SETTLE PROACTIVELY THE ISSUES INVOLVED. THE PLANT IS TO BE COMPLETED BY OCTOBER 2000 (A SLIPPAGE FROM THE LATE 1999 DATE PREVIOUSLY SOUGHT). ENROW WILL FINANCE BEGINNING CONSTRUCTION ITSELF, LATER SEEKING FINANCING WHEN THE PROJECT IS UNDERWAY.

[(b)(4)]

[(b)(4)]

6. (II) THE CALCULATIONS NOW ASSUME THE GAS WILL COME FROM AN OFFSHORE FIELD SOUTHWEST OF VIETNAM, NOT THE

### UNCLASSIFIED

### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

27/18587

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OPECO/CANADIAN PETROLEUM BLOCK IN THE SOUTH CHINA SEA
PREVIOUSLY CONSIDERED. PETROVIETNAM HAS NOT YET GIVEN A
FIRM COMMITMENT. B

UT ENRON IS CONFIDENT THE GAS
EVENTUALLY WILL BE AVAILABLE, EVEN THOUGH A PIPELINE
COSTING \$258-388 MILLION WILL HAVE TO BE BUILT.

 ISBU) BALDWIN ADMITTED THERE WERE RISKS RELATED TO FURTHER DONG DEVALUATIONS AND THE FACT THE CURRENT 'FIVE UNCLAS SECTION 82 OF 82 HANOI 882957

#### SENSITIVE

STATE PASS TO USTR/DAMOND/BELASSA, OPIC, AND EXIMBANK
STATE ALSO FOR EAP/BCLTV. EB/IFD/OIA: EB/IFD/ODF
STATE ALSO FOR AID/ANE
TREASURY ALSO FOR PATRICK STUART
SECDEF ALSO FOR ISA/EA/LSTERN
USDOC ALSO FOR 4431/MAC/IEP/OKSA/HPPHO
USDOC ALSO FOR ITA/TD/OTEA/JJANICKE AND ITA/TD/SIF/CMUIR
USDA/FAS ALSO FOR FAA/AO/SSAP/BEEGLEY AND KD/WAGNER
USDA ALSO FOR FAS/FAA/AO; FAS/ITP/ODA; FAS/ITP/ADD

E.O. 12958: N/A TAGS: ENRG, EINV, BEXP

SUBJECT: ENROW'S PROPOSED BOT POWER PROJECT AT SOC

REF: HANOI 2236

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CENT' CAP ON THE RETAIL ELECTRICITY RATE SET BY THE NATIONAL ASSEMBLY IS ACTUALLY DENOMINATED IN DONG.
DEVALUATION WILL REQUIRE EITHER A HIGHER DONG PRICE PAID BY CONSUMERS OR A LOWER DOLLAR PRICE PAID TO ENROW.

- 8. (SBU) COMMENT: ENROW HAS BEEN CRITICAL OF THE WORLD BANK'S ROLE IN ELECTRIC POWER DEVELOPMENT IN VIETNAM, BELIEVING THE BANK AND OTHER DONORS REWARD UNCOMPETITIVE BEHAVIOR. ENROW CONSIDERS WORLD BANK FINANCING OF SOME PARTS OF A PROJECT TO BE VALUABLE, BUT NOT IF THE BANK CROWDS OUT PRIVATE INVESTORS OR LEADS COUNTRIES TO THINK THEY CAM MEET THEIR ENERGY NEEDS PRIMARILY THROUGH CHEAP ODA FINANCING. SOME VIETNAMESE OFFICIALS MAY PREFER ODA FINANCING IN THE HOPE IT COULD OFFER OPPORTUNITIES FOR ILLICIT ENRICHMENT, THROUGH INFLUENCING CONTRACT BIDS AND AWARDS, WHILE BOT PROJECTS OFFER LITTLE OPPORTUNITY FOR THAT.
- 9. (SBU) COMMENT CONTINUED: THE METHODS VIETNAM IS USING ARE NOT CONDUCIVE TO QUICK DEVELOPMENT OF ITS ELECTRIC POWER SECTOR. THE PROCESS MAKES FOR LONG DELAYS, POWER SHORTAGES, AND HIGHER COSTS IN THE LONG

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RUN. THE ROOT OF THE PROBLEM IS OFFICIAL FEARS OF THE POLITICAL COST OF PASSING ON HIGHER FUEL AND/OR FINANCING COSTS AS THE DONG DEVALUES. THE GVM IS STILL AGONIZING OVER HOW TO MINIMIZE THE EFFECTS OF THIS INEVITABLE REALITY. THE GVM HAS TO CHOOSE BETWEEN SUBSIDIZING POWER CONSUMPTION BY CUTTING INTO EVN'S REVENUE OR ALLOWING THE CONSUMER PRICE TO RISE. EVM IS BARELY PROFITABLE NOW; LOWER EVN REVENUE WOULD FURTHER COMPLICATE EFFORTS TO INCREASE THE ELECTRICITY SUPPLY. THE WORLD BANK'S CONCESSIONAL INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) CREDITS THEREFORE ARE EXTREMELY ATTRACTIVE, BUT THE FACT IDA FINANCING HELPED THE PHU MY 2-1 PROJECT TO DELIVER ELECTRICITY AT A VERY LOW COST REPORTEDLY 3 CENTS/KWH) HAS CONTRIBUTED TO INTERNAL CRITICISM OF OTHER PROJECTS WHICH MUST CARRY HIGHER COSTS, EVEN IF THE BANK HAS NO PLANS TO FINANCE ANOTHER PROJECT LIKE THAT. FINALLY, IT IS NOT CLEAR WHETHER THE AGREED GAS PRICE OF USD 2.8 PER MILLION BTU HAS BEEN NEGOTIATED WITH PETROVIETNAM'S FOREIGN PARTNERS. DISAGREEMENTS OVER GAS PRICES, ALONG WITH OTHER ISSUES, HAVE CAUSED LONG AND CONTINUING DELAYS IN DEVELOPMENT OF OFFSHORE GAS DEPOSITS.

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### UNCLASSIFIED

### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT



PAGE 01 MID=199830002356 071698 27/2255Z

CAVEAT (S) =

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ACTION = [TRS] BOI (1) · GI (4) + IADB (1) · IDB (1) · IDC (1) · IMB (1) · INL (1)

ITF (1) · ITI (1) · OIMF (1) · QC (1) · SEN (-)

CRC = E205

RR RUEATRS
DE RUEHLP #4905 3002110
ZNR UUUUUU ZZH
R 272110Z OCT 98
FM AMEMBASSY LA PAZ
TO RUEHC/SECSTATE WASHDC 8042
INFO RUCPDOC/USDOC WASHDC
BT
UNCLAS LA PAZ 004906

SENSITIVE

USDOC FOR 4331/ITA/OSA/TWELCH

E.O. 12958: N/A TAGS: EINV OPIC BL SUBJECT: EMBASSY COMMENTS ON CUIABA PROJECT

REF: STATE 197013

SENSITIVE BUT UNCLASSIFIED - PLEASE HANDLE ACCORDINGLY

- 1. MISSION FULLY SUPPORTS DEVELOPMENT OF BOLIVIA'S SECOND GAS PIPELINE TO CUIABA. TRANSREDES THE PROJECT'S INITIATOR -- IS A CAPITALIZED COMPANY OWNED BY ENRON (25&). ROYAL DUTCH SHELL (25&) AND A COMBINATION OF FORMER WORKERS AND THE BOLIVIAN PUBLIC (50&).) IT IS ALSO WELL-KNOWN TO THE MISSION AND ENJOYS A SOLID REPUTATION IN BOLIVIA AND WORLDWIDE AS AN EFFICIENT DEVELOPER AND MANAGER OF BOLIVIA'S GAS TRANSPORTATION NETWORK.
- 2. ON OCTOBER 26 THE POL/ECON COUNSELOR SPOKE WITH PETER WEILDER, PRESIDENT OF TRANSREDES, REGARDING THE STATUS OF HIS COMPANY'S REQUEST PENDING BEFORE THE GOB FOR THE NECESSARY LEGAL APPROVALS TO PROCEED WITH THE PROJECT. BOLIVIAN LAW REQUIRES THAT THE EXECUTIVE SUBMIT A LAW TO CONGRESS FOR ITS APPROVAL FOR ANY PIPELINE WHICH CROSSES THE ZONE 50 KILOMETERS WITHIN THE NATIONAL BORDER. THE GOB HAS YET TO SUBMIT THE LAW FOR THE CONGRESS' CONSIDERATION. WEILDER SAYS THAT HE HAS BEEN ASSURED BY BOTH THE PRESIDENT AND THE VICE PRESIDENT THAT THE PROJECT HAS THEIR FULL SUPPORT, BUT THESE PROMISES HAVE YET TO BE TRANSLATED INTO ACTION. HE SAYS THAT THE PRESIDENT EXPLAINED THAT HE MUST FIRST GENERATE POLITICAL SUPPORT WITHIN THE MULTI-PARTY COALITION WHICH HE HEADS BEFORE HE CAN SUBMIT IT TO THE CONGRESS. WEILDER BELIEVES THAT THE GOB HAS YET TO DEVELOP THIS NECESSARY CONSENSUS WITHIN THE COALITION AND CANNOT PREDICT WHEN THIS MIGHT OCCUR.

LANNON BT #4906 E205 NNNN

## ................... UNCLASSIFIED

### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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02/08307

PAGE 81 OF 82 CAUFAT (S) = HANDLE VIA

ACTION = [TRS]BO1 (1), EPD (1), G1 (1), ICC (1), ICM (1), IDC (1), IMB-412-

MID=199839629329

INA (1) , (T) (1) , OIMF (1) , QC (1) , SEN (-)

CRC = 5E88

PP RUEATRS DE RUEHUM #1411/81 3069628 ZNR UUUUU ZZH P @2@628Z NOV 98

FM AMEMBASSY ULAANBAATAR

TO RUEHC/SECSTATE WASHDC PRIORITY 1413

INFO RUEHBJ/AMEMBASSY BEIJING 8811

RUEHMO/AMEMBASSY MOSCOW 8895

RUEHUL/AMEMBASSY SEOUL #128

RUEHKO/AMEMBASSY TOKYO 9178

RUEHHK/AMCONSUL HONG KONG Ø114

RHHMUNA/USCINCPAC HONOLULU HI//FPA//

RUEHIA/USIA WASHDC 0278

RUCPODC/USDOC WASHDC 8107

RHEBAAA/USDOE WASHOC

UNCLAS SECTION 81 OF 92 ULAANBAATAR 981411

SENSITIVE

STATE FOR EAP/CM, E/CBA AND EB/IEP

PASS AID FOR ANE-C. DOWNEY AND G/ENV/EET

USDOE FOR INTL AFFAIRS

USDOC FOR ITA-EAP AND ITA-ENERGY

BEIJING FOR ECON-S. REES AND COMMERCIAL SERVICE-C. ADAMS

E.O. 12958: N/A TAGS: ENRG ELNV, MG SUBJECT: ENRON SIGNS AGREEMENT WITH GOM ON TRANSMISSION LINE AND HYDROPOWER PROJECTS

REF: ULAANBAATAR 1831

SENSITIVE BUT UNCLASSIFIED - CONTAINS PROPRUIETARY

- 1. (SBU) SUMMARY: THIS MESSAGE GIVES DETAILS OF AN ENRON-GOM AGREEMENT ON POWER TRANSMISSION LINE AND HYDROELECTRIC PROJECTS. U.S. POWER COMPANIES ARE IN A DOMINANT ROLE IN DEVELOPMENT OF THE MONGOLIAN ENERGY SECTOR. END SUMMARY
- 2. (SBU-PROPRIETARY INFORMATION) ON OCT. 38, ENRON INTERNATIONAL CORP. OF HOUSTON, TEXAS SIGNED A MEMORANDUM

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OF UNDERSTANDING WITH THE INFRASTRUCTURE MINISTRY COVERING TWO PROJECT DEVELOPMENT AREAS:

-- A HIGH VOLTAGE TRANSMISSION LINE TO RUN FROM THE IRKUTSK REGION OF CENTRAL SIBERIA TO NORTHERN CHINA (REFTEL). UNDER THE TERMS OF THE MOU, ENRON WILL AGREE WITH THE GOM ON THE BORDER CROSSING POINTS FOR THE POWER LINE, THEN UNDERTAKE A FULL FEASIBILITY STUDY, INCLUDING AN OPTION FOR MONGOLIAN OFFTAKE OF ELECTRICITY FROM THE MAIN POWER LINE. THE TRANSMISSION LINE ROUGHLY WOULD FOLLOW THE TRANS-MONGOLIAN RAILWAY LINE, ENTERING MONGOLIAN TERRITORY AT KHIATKA AND CROSSING INTO CHINA NEAR ERLIAN (ERENHOT). THIS PROJECT WOULD BE WHOLLY OWNED BY ENRON; THE MONGOLIAN PORTIONS WOULD BE CONSTRUCTED AND OPERATED BY A LOCAL SUBSIDIARY OF ENRON INTERNATIONAL.

-- A REVIEW OF OPTIONS AND ECONOMIC FEASIBILITY RELATING TO HYDROPOWER DEVELOPMENT, FOCUSING ON THE STALLED EGIIN GOL HYDROELECTRIC PLANT PROJECT. ACCORDING TO THE MOU, ENRON'S STUDY WOULD INCLUDE "PARTICIPATION IN THE DEVELOPMENT, DESIGN, PROCUREMENT, FINANCING, CONSTRUCTION, OWNERSHIP AND OPERATION OF HYDROELECTRIC POWER GENERATION FACILITIES," INCLUDING BUT NOT LIMITED TO EGIIN GOL. ENRON WILL EXAMINE OTHER POSSIBLE HYDROPOWER SITES, TRADEOFFS WITH OTHER FORMS OF POWER GENERATION (E.G., COAL POWERED PLANTS, COAL GASIFICATION, IMPORTED ELECTRICITY, GAS TURBINE PLANTS, AND CRUDE OIL BURNING PLANTS) TO FACILITATE A GOM DECISION ON WHETHER TO PUT THE EGIIN GOL PROJECT OUT FOR INTERNATIONAL TENDER AND WHAT THE OPTIMAL PROJECT DESIGN MIGHT BE. ENRON HAS ASSURED THE INFRASTRUCTURE MINISTRY THAT THIS REVIEW WOULD BE DONE AT NO COST TO THE GOM AND THAT, WITHOUT PREJUDICE TO THE FINAL RESULT, IT WOULD COMPETE IN AN INTERNATIONAL TENDER IF THAT IS WHAT THE GOM DECIDES SHOULD BE DONE. ICOMMENT: IF THE COM DECIDES TO PUT A HYDROPOWER PROJECT OUT FOR INTERNATIONAL TENDER, IT IS LIKELY THAT THE BARENTS GROUP WILL BE ASKED BY THE STATE PROPERTY COMMITTEE TO MANAGE THE PROCESS AS AN ADDENDUM TO OUR USAID PRIVATIZATION PROJECT.)

3. (SBU-PROPRIETARY INFORMATION) ENROW HAS SET UP AN OPERATING COMPANY, ENROW INTERNATIONAL MONGOLIA LTD. THAT WILL BE LICENSED UNDER MONGOLIAN LAW. AS AN INFRASTRUCTURAL INVESTOR, ENRON WILL BE ENTITLED TO A COMPLETE TAX EMEMPTION FOR 18 YEARS AND A 58% TAX REDUCTION FOR THE NEXT FIVE YEARS. THE GOM WILL BENEFIT FROM VAT PAYMENTS ON ITS MONGOLIAN OPERATIONS, RIGHT OF WAY FEES, AND ROYALTIES ON THE ELECTRICITY PASS-THROUGH. ALTHOUGH AN ADDITIONAL INVESTMENT UP TO \$200 MILLION MAY BE REQUIRED, A CONVERTER STATION COULD PROVIDE OFFTAKE FROM THE TRANSMISSION LINE FOR THE ULAANBAATAR OR DARKHAN-ERDENET SECTORS; THE FEASIBILITY OF THIS APPROACH WILL BE EXAMINED BY THE GOM AND ENROW. ENROW'S NEXT STEP IS TO

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### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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NEGOTIATE WITH THE RUSSIANS FOR EITHER THE EXPORT OF
ELECTRICITY FROM EXISTING POWER PLANTS IN THE IRKUTSK
REGION OR THE ACQUISITION OF AN UNFINISHED HYDROPOWER —
PLANT NORTH OF IRKUTSK. ON THE CHINA END, ENRON IS
DEALING WITH THE NORTH CHINA POWER BUREAU FOR SUPPLY OF
THIS ELECTRICITY TO THE BEIJING AREA GRID.

4. (SBU) USIS IS WORKING WITH ENROW HEADQUARTERS AND WITH UNCLAS SECTION 82 OF 82 ULAANBAATAR 881411

SENSITIVE

STATE FOR EAP/CM, E/CBA AND EB/IEP

PASS AID FOR ANE-C. DOWNEY AND G/ENV/EET

USDOE FOR INTL AFFAIRS

USDOC FOR ITA-EAP AND ITA-ENERGY

BEIJING FOR ECON-S. REES AND COMMERCIAL SERVICE-C. ADAMS

E.O. 12958: N/A TAGS: ENRG EINV: MG

SUBJECT: ENRON SIGNS AGREEMENT WITH GOM ON TRANSMISSION

LINE AND HYDROPOWER PROJECTS

REF: ULAANBAATAR 1831

THE GOM ON THE ISSUANCE OF A PRESS RELEASE. ALSO, A COPY OF THE SIGNED MOU (SBU) IS BEING SENT TO EAP/CM-D.EPSTEIN.

5. (U) IN A RELATED DEVELOPMENT, EMBASSY AND USAID SPONSORED AN ALL-DAY ENERGY ROUNDTABLE ON OCT. 31. HOSTED BY THE AMBASSADOR, THE SEMINAR INLCUDED SENIOR GOM ECONOMIC OFFICIALS, INCLUDING THE ACTING INFRASTRUCTURE MINISTER AND HIS STAFF, THE ENERGY AUTHORITY, KEY PARLIAMENT MEMBERS AND ADVISERS FROM THE PRESIDENT'S OFFICE AND GOM NATIONAL SECURITY COUNCIL. CONDUCTED BY USAID CONSULTANTS WITH EXPERIENCE IN HUNGARY, THE MEETING FOCUSED ON DEVELOPMENT OF AN ENERGY SECTOR STRATEGY, OPTIONS FOR POWER DEVELOPMENT AND PRIVATIZATION; ENERGY PRICING AND ASSET VALUATION; SETTING UP AN INDEPENDENT REGULATORY AUTHORITY; AND CONTENTS OF A NEW ENERGY LAW WITH IPO PROVISIONS. THE ROUNDTABLE MEETING BROKE NEW GROUND WITH TOP OFFICIALS DEALING WITH ENERGY POLICY. INCLUDING THE ENROW AND AES PROJECTS, TOWARD DEVELOPING A CONSENSUS ON A PACKAGE (POWER STRUCTURE, REGULATORY REGIME AND ENERGY LAW) TO BE PUT TO PARLIAMENT FOR APPROVAL. HOPEFULLY NEXT SPRING WHEN WORK ON THE U.S. POWER PROJECTS IS EXPECTED TO MATURE. DURING THIS MEETING, THERE WAS A CONSENSUS THAT FOREIGN PRIVATE PARTICIPATION IS ESSENTIAL TO FUTURE DOMESTIC POWER DEVELOPMENT AND THAT A NEW, LESS

MID=199838688329 874559 STATIST MODEL IS NEEDED FOR THE MONGQLIAN POWER INDUSTRY. 82/88387

6. (SBU) COMMENT: COMBINED MITH LAST AUGUST'S AGREEMENT WITH AES ON POWER PLANT PRIVATIZATION AND ENRON'S INTENTION TO PARTNER WITH THE GOM ON THE RUSSIA-CHINA GAS PIPELINE, U.S. CORPORATIONS ARE IN THE COMMANDING POSITION REGARDING DEVELOPMENT OF THE MONGOLIAN POWER SYSTEM. BOTH ENRON AND AES HAVE STRONG AND POSITIVE RECORDS ON ENERGY DEVELOPMENT IN THIS REGION, POINTS NOT LOST ON THE MONGOLIANS WHO HAVE HERETOFORE DEALT WITH POORLY CONCEIVED PROJECTS AND LESS CAPABLE COMPANIES. IN RECENT WEEKS SINCE THE UNTIMELY DEATH OF INFRASTRUCTURE MINISTER ZORIG, EMBASSY HAS WORKED TO KEEP THE GOM ON TRACK TO CONCLUDE THE ENRON PACKAGE. WE ARE PLEASED TO HAVE BEEN ABLE TO STIMULATE ENRON'S INTEREST IN COMING TO MONGOLIA AND TO FACILITATE THIS AGREEMENT.

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## ................... CONFIDENTIAL

# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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PAGE 61

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CAVEAT (S) =

HANDLE VIA

ACTION = [TRS]801 (1) , EPD (1) , GI (1) , ICM (1) , IDB (1) , IDC (1) , IMB\_(1) ITI (1) . DIMF (1) . QC (1) . SEN (-)

CRC = A294

RR RUEATRS

DE RUEHKT #2861 3178953

ZNY CCCCC ZZH

R 138953Z NOV 98

FM AMEMBASSY KATHMANDU

TO RUEHC/SECSTATE WASHDC 9249

INFO RUEHKA/AMEMBASSY DHAKA 2544

RUEHIL/AMEMBASSY ISLAMABAD 3077

RUEHLM/AMEMBASSY COLOMBO 6582

RUEHNE/AMEMBASSY NEW DELHI 0559

RUEHLO/AMEMBASSY LONDON 8193

BT

CONFIDENTIAL KATHMANDU 802861

LONDON FOR PAUL SUTPHIN

E.O. 12958: DECL: 11/13/88

TAGS: PREL, PGOV, PREF, ECON, EINV, NP

SUBJECT: NEPAL: PRIME MINISTER REITERATES REQUESTS

FOR HELP ON ELECTIONS AND FOR ENROW PROJECT,

FRETS ABOUT DECLINE OF JAPANESE AID

REF: (A) KATHMANDU 2556

(B) KATHMANDU 2844

CLASSIFIED BY AMBASSADOR RALPH FRANK. REASON: 1.5

(B, D).

1. (C) SUMMARY: IN A ONE-ON-ONE MEETING WITH THE AMBASSADOR NOVEMBER 18, NEPAL! PRIME MINISTER KOIRALA REITERATED AN EARLIER REQUEST FOR U.S. ASSISTANCE WITH THE NEPAL! GENERAL ELECTION PLANNED FOR APRIL OR MAY OF

1999. [(b)(1)]

HE FRETTED ABOUT A

REDUCTION IN JAPANESE BILATERAL AID TO NEPAL. THE PRIME

MINISTER'S COMMENTS ABOUT [(b)(1)]

END SUMMARY.

ELECTIONS AND INDIA

2. (C) MEETING WITH THE AMBASSADOR A MONTH AFTER THEIR LAST ONE-ON-ONE MEETING (REF A), NEPALESE PRIME MINISTER KOIRALA AGAIN SOUGHT U.S. ASSISTANCE IN GETTING VOTER IDENDITY CARDS COMPLETED BEFORE NATIONAL ELECTIONS THAT ARE EXPECTED TO TAKE PLACE IN APRIL OR MAY OF 1999. [(b)(1)] ENRON

[(b)(1)]

3. (C) THE PRIME MINISTER SAID HE -- AND NOT THE WATER RESOURCES MINISTER -- WOULD RESPOND DIRECTLY TO AN EXPRESSION OF INTEREST FROM ENRON IN THE KARNALI

HYDROPOWER PROJECT. [(b)(1)]

MOTE: ENRON IS

CLEARING A DRAFT LETTER IN-HOUSE; WE HOPE TO SEE A FINAL VERSION SHORTLY. END NOTE.)

JAPANESE AID

4. IC) THE PRIME MINISTER HAD JUST RETURNED FROM AN OFFICIAL VISIT TO JAPAN, UNDERTAKEN, HE SAID, TO "APPEAL" JAPAN'S DECISION TO CUT ITS LEVELS OF BILATERAL AID.

[(b)(1)]

(COMMENT: JAPAN IS THE LARGEST BILATERAL AID DONOR TO NEPAL. ITS DECISION TO REDUCE AID, [(b)(1)]

MUST BE EXTREMELY WORRISOME TO NEPAL, WHICH IS COMPLETELY DEPENDENT ON DONOR ASSISTANCE.)

FRANK

#2861

A294

NNNN

### IMMEDIATE

### UNCLASSIFIED

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### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PH 622-2222 RM 11

PAGE 81

MID=200023501327

848847

22/16882

HANDLE VIA

ACTION = [TRS]BOI (1), GIUN (1), IBRD (1), IDB (1), IDC (1), IDD (1) - IAR (1) ISM (1), ITAS (1), ITI (1), OIMF (1), QC (1), SEN (-), XAA (1), XL (1)

CRC = DD2F

OO RUEATRS

DE RUEHAK #5599 2351514

ZNR UUUUU ZZH

O 221514Z AUG 88

FM AMEMBASSY ANKARA

TO RUEHC/SECSTATE WASHDC IMMEDIATE 7281

INFO RUCPDOC/USDOC WASHDC

RHEBAAA/USDOE WASHDC

RUEHLO/AMEMBASSY LONDON 3118

RUEHDA/AMCONSUL ADAMA 7848

RUEHIT/AMCONSUL ISTANBUL 9632

BT

UNCLAS ANKARA 085599

STATE FOR EB/CBED, EUR/SE, EB/IEP

USDOC FOR 1883/ITA/JKALICKI

USDOC FOR 6888/TD/AS/MCOPPS

USDOC FOR 4212/ITA/MAC/DEURA/CPD/DDEFALCO

USDOC FOR 6118/TD/BI/OEIM/MBEEMAN

USDOE FOR GOLDWYN, FARIELLO AND ROSSI

E.O. 12958: DECL: N/A

TAGS: EPET, ENRG, EINV, TU

SUBJECT: TURKISH GOVERNMENT PAYS EDISON MISSION AND ENRON DEBT

1. ON AUGUST 16, EDISON MISSION'S DOGA ENERJI AND EMRON'S TRAKYA ELEKTRIK RECEIVED PAYMENT (TOTALING APPROXIMATELY USD 62 MILLION) FROM THE GOT FOR FUEL OIL THESE TWO ELECTRICITY GENERATION PLANTS WERE FORCED TO BUY LAST WINTER WHEN RUSSIAN GAS DELIVERIES WERE CUT. UNDER THE TERMS OF THEIR CONTRACTS, THE TURKISH GOVERNMENT WAS SUPPOSED TO PAY THIS DEBT IN MARCH. [(b)(4)]

THE COMPANIES EXPECT THE GOT TO FACE GAS SHORTAGES AGAIN THIS WINTER, WHICH WILL COMPEL THE PLANTS TO RUN ON FUEL OIL. [(b)(6)] THE GOT HAS DRAFTED

AMENDMENTS TO ALLOW THE ENERGY FUND TO MAKE FASTER PAYMENT TO COMPANIES SHOULD THIS SITUATION RECUR NEXT WINTER. THE GOT IS ALSO EXAMINING A PROPOSAL TO ELIMINATE THE 388 PERCENT IMPORT TAX ON FUEL OIL FOR POWER PLANTS, A MEASURE WHICH WOULD AT LEAST REDUCE THE AMOUNT OF MONEY THE COMPANIES WOULD BE REQUIRED TO PAY UP FRONT.

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848847

22/1698Z

2. WHILE BOTH DOGA AND TRAKYA ARE VERY PLEASED THAT THE TURKISH GOVERNMENT RESOLVED THE FUEL PRICE DIFFERENTIAL ISSUE, THEY ARE CONCERNED THAT MONTHLY PAYMENTS FROM THE STATE ELECTRIC GENERATION UTILITY (TEAS) FOR THE POWER THEIR PLANTS GENERATE ARE INCREASINGLY LATE, [(b)(4)]

THS

TURKISH GOVERNMENT IS WELL AWARE OF THE PROBLEM, BUT HAS EXPLAINED THAT TEAS IS NOT BEING PAID BY OTHER STATE ENTITIES (INCLUDING THE STATE DISTRIBUTION COMPANY TEDAS), WHICH IN TURN FORCES TEAS TO PAY THE COMPANIES LATE.

3. THE GOT HAS TAKEN SOME PRELIMINARY MEASURES TO IMPROVE TEAS' REVENUES OVER THE MEDIUM AND LONG TERM. THE MOST IMPORTANT MEASURE WILL TAKE PLACE WITH THE NEW GOT BUDGET, DECISIONS ON WHICH WILL BEGIN IN OCTOBER. STATE ENTERPRISES WILL BE REQUIRED TO INCLUDE MORE REALISTIC AMOUNTS OF MONEY IN THEIR BUDGETS TO PAY EXPECTED ENERGY BILLS. IN JULY, THE GOVERNMENT ALSO ANNOUNCED THAT CUSTOMERS CONSUMING MORE THAN A BASIC AMOUNT OF ELECTRICITY PER MONTH WOULD PAY A HIGHER RATE. ELECTRICITY PRICES WILL ALSO CONTINUE TO INCREASE 2.1 PERCENT A MONTH THROUGH THE END OF THE YEAR, IN LINE WITH TURKEY'S IMF DISINFLATION PROGRAM. [(b)(6)] TOLD ECONOFF ON AUGUST 18 THAT HE EXPECTS THESE NEW MEASURES TO REDUCE THE DELAYS IN TEAS PAYMENTS TO THE POWER PRODUCERS BY THE END OF OCTOBER.

 THE ELECTRIC PRODUCERS ARE ALSO CONCERNED THAT THE GOT [(b)(4)]

WE WILL CONTINUE TO

MONITOR THE STATUS OF THESE PAYMENTS.

PARRIS

BI

#5599

DD2F NNNN

UNCLASSIFIED

# CONFIDENTIAL

### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE Ø1 OF Ø2

MID=200112900661

836347 89/18157

MID=200112900661

836347 99/19157

CAVEAT (S) =

HANDLE VIA

ACTION = [TRS]BOI (1) . CALL (3) . IDB (1) . IDC (1) . IMB (1) . IMF (1) . SM (1)

ITF (1) . ITI (1) . OIMF (1) . QC (1) . SEN (-) . TSDN (-)

CRC = DA7C

PP RUEATRS

DE RUSBAY 18726/81 1291813

ZNY CCCCC ZZH

P R 891813Z MAY 81

FM AMCONSUL MUMBA1

LIL MINORAGE HOUSE

TO RUEHC/SECSTATE WASHDC PRIORITY 2228

INFO RUEHNE/AMEMBASSY NEW DELHI 7694

RUEHNEC/ANCONSUL CALCUTTA 1515

RUEHCG/AMCONSUL CHENNAI 4991

RUEATRS/TREASDEPT WASHDC

RUCPDOC/USDOC WASHDC 8113

BT

C O N F I D E N T I A L SECTION Ø1 OF Ø2 MUMBAI ØØ726

STATE PASS EXIMBANK FOR RITA MURRELL/DONNA SCHNEIDER

STATE PASS OPIC FOR LOREN RODWIN AND RUTH ANN NICASTRI

STATE PASS USIR FOR RICK RUZICKA

STATE PASS SEC FOR MARISA LAGO

**IREASURY FOR GEETHA RAO** 

USDOC FOR 3131/010/ANESA/KBRENNAN

USDOC FOR 4538/MAC/OSAO/ASTERN

USDOC FOR 4538/MAC/OSAO/RHARDING

E. 9. 12958: DECL: 05/07/2018

TAGS: ENRG, EFIN, ECON, IN

SUBJECT: MAY 11 MEETING WILL BE INCONCLUSIVE FOR ENRON/OPC;

TERMINATION LIKELY TO FOLLOW

REF: A) MUMBAI 788, B) MUMBAI 689 AND PREVIOUS

CLASSIFIED BY CONSUL GENERAL DAVID P. GOOD FOR REASON 1.5D.

1. ISBU) REPRESENTATIVES OF DABHOL POWER COMPANY IDPCI HAVE AGREED TO MEET FRIDAY, MAY 11 IN MUMBAL WITH REPRESENTATIVES OF THE GOOBOLE COMMITTEE, CHARGED BY THE GOVERNMENT OF MAHARASHTRA (GOM) TO RENEGOTIATE THE POWER PURCHASE AGREEMENT UPPA) BETWEEN DPC AND THE MAHARASHTRA STATE ELECTRICITY BOARD (MSEB). IN A CONVERSATION TUESD.AY (MAY 8) WITH THE CONSUL GENERAL, [(b)(6)] WAS PESSIMISTIC THAT THE MEETING WOULD YIELD ANY POSITIVE RESULTS.

[(b)(1), (b)(4)]

[(b)(1), (b)(4)]

[(b)(1), (b)(4)]

4. (SBU) POST HAS DEVELOPED THE FOLLOWING TIMELINE OF DATES THAT WILL HAVE SOME BEARING ON WHAT APPEARS TO BE AN ALMOST CERTAIN PROLONGED ARBITRATION PROCEEDING. IT PROVIDES A USEFUL CONTEXT FOR MOVES AND COUNTERMOVES TAKING PLACE IN RECENT DAYS. WHEN READING IT, THE DEPARTMENT SHOULD BE AWARE THAT IT IS INFORMAL AND SHOULD MOT BE SEEN AS A LEGAL DOCUMENT.

APRIL 4 -- ENRON/DPC FILES NOTICES OF "ARBITRATION AND CONCILIATION"
TO GOI FOR NOT HONORING COUNTER-GUARANTEES ON PAYMENT OF DECEMBER
2000 BILL. NINETY DAYS MUST ELAPSE BEFORE ACTUAL ARBITRATION CAN
BEGIN.

APRIL 7 -- ENRON/DPC ISSUES NOTICE OF "POLITICAL FORCE MAJEURE" TO GOM: FOR HAVING TAKEN ACTIONS "WHICH HAVE HAD OR ARE LIKELY TO HAVE A MATERIAL AND ADVERSE EFFECT UPON THE PERFORMANCE OF DPC'S OBLIGATIONS UNDER THE PPA "

APRIL 10 -- ENRON/DPC INVOKES THE "STATE SUPPORT AGREEMENT" AND 
"SUPPLEMENTAL STATE SUPPORT AGREEMENT" FOR COM'S F. AILURE TO PROVIDE 
"ALL MEANS OF SUPPORT TO THE PROJECT" AS REQUIRED BY THE PPA.

APRIL 12 -- ENRON/DPC FILES NOTICE OF ARBITRATION TO GOM BASED ON CLAUSES IN THE PPA RELATED TO PENALTIES CHARGED TO DPC. RESPONDENT MUST APPOINT AN ARBITRATOR WITHIN ONE MONTH.

APRIL 23-25 -- LENDERS AND DPC BOARD MEET IN LONDON. LETTERS SENT TO GOT WITH DEMANDS REGARDING PAYMENTS AND GUARANTEES. AUTHORIZATION GIVEN TO ENROW/DPC INDIA TO ISSUE TERMINATION NOTICE, BUT NO INSTRUCTIONS TO DO SO.

MAY 11 -- GODBOLE COMMITTEE SCHEDULED TO MEET WITH DPC AND MSEB.

MAY 18 -- LENDERS SCHEDULED TO MEET IN LONDON. PARTIES HAD AGREED TO MEET 23 DAYS AFTER THEIR APRIL 25 MEETING.

JUNE 4 -- BLOCK ONE OF PHASE TWO 1748 MWD GOES ON LINE AT DPC.

JULY 3 -- ARBITRATION MUST BEGIN IN LONDON IN RESPONSE TO NOTICE

### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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OCTOBER -- SECOND BLOCK OF PHASE TWO (748 MW) SCHEDULED IQ. GO ON

C O N F I D E N T I A L SECTION 82 OF 82 MUMBAI 88726

STATE PASS EXIMBANK FOR RITA MURRELL/DOWNA SCHMEIDER STATE PASS OPIC FOR LOREN RODWIN AND RUTH ANN MICASTRI STATE PASS USTR FOR RICK RUZICKA STATE PASS SEC FOR MARISA LAGO TREASURY FOR GEETHA RAO

USDOC FOR 3131/010/ANESA/KBRENNAM USDOC FOR 4538/Mac/osao/ASTERN USDOC FOR 4538/Mac/osao/Rharding

E.B. 12958: DECL: 85/87/2818

TAGS: ENRG, EFIN, ECON, IN

SUBJECT: MAY 11 MEETING WILL BE INCONCLUSIVE FOR ENRON/DPC;

TERMINATION LIKELY TO FOLLOW

REF: A) MUMBAI 788, B) MUMBAI 689 AND PREVIOUS

[(b)(1), (b)(4)]

GOOD BT #0726 DA7C NNNN

Printed By Alex Martschenko 02/18/2000 07:49:39 AM

#### LAGOS 527

MRN: 527

From: AMEMBASSY LAGOS Subject: GON STARTING TO GET WITH THE ICNbr: TED0824 **ECON PROGRAM** 

Date/Time: 160553Z FEB 00 Precedence: IMMEDIATE

Cable Text:

TED0824 ACTION AF-00

AID-00 CEA-01 CIAE-00 COME-00 CTME-00 , INFO LOG-00 NP-00 INL-01 DCDE-00 SRPP-00 DS-00 FRB-00 H-01 TEDE-00 INR-00 EB-0C EXIM-01 E-00 PRB-00 H-01 TEDE-00 INR-00 ITC-01 L-00 NSAE-00 NSCE-00 OMB-01 OPIC-01 PA-00 PM-00 AC-01 PM-00 PRS-00 ACE-00 P-00 SP-00 IRM-00 STR-00 USIE-00 FKP-00 PMB-00 DSCC-00 DRL-02 G-00 NFAT-00 SAS-00 /0108 /010W -----33BDBF 1605562 /38

C 1605532 FEB 00 FM AMEMBASSY LAGOS TO SECSTATE WASHDC PRIORITY 0144 INFO DEPTTREAS WASHDC IMMEDIATE ECOWAS COLLECTIVE USDOE WASHDC

CONFIDENTIAL SECTION OL OF 05 LAGOS 300527

E.O. 12958: DECL: 02/15/10 TAGS: PGOV, ECON, EFIN, NI

SUBJECT: GON STARTING TO GET WITH THE ECON PROGRAM

REF: A) 99 LAGOS 10066 B) LAGOS 0492

LAGOS 01 OF 05 527 .

CLASSIPIED BY ECON CHIEF MCCULLOUGH, REASONS PARA 1.5 B AND D.

[(b)(1)]

[(b)(1)]

PRIVATIZATION: OBASANJO IS GETTING IT

[(b)(1)]

B) FINALLY GOT THE BALL ROLLING: AFTER DOING ALMOST MOTHING FOR FIVE MONTHS ON THE FIRST ROUND OF PRIVATIZATIONS PROMISED FOR THE END OF 1999, THE CRASARJO ADMINISTRATION IN DECEMBER LAURCHED [(b)(1)]

PUSH TO REAPPOINT PRIVATIZATION ADVISERS AND DRAW UP BID DOCUMENTS. NOT COINCIDENTALLY, THIS OCCURRED JUST AFTER VICE PRESIDENT ATIKU BROUGHT IN MASIR EL-RUFAI TO BE DIRECTOR GENERAL OF THE BUREAU OF PUBLIC ENTERPRISES (BPE), THE IMPLEMENTATION BODY FOR THE NATIONAL COUNCIL ON PRIVATIZATION HEADED BY THE VICE PRESIDENT. [(b)(1)]

[(b)(1)]

LAGOS 02 OF 05 527

[(b)(1)]

-- WAPCO: [(b)(1)]

ODUA WENT TO COURT TO STOP THE SALE (THE CASE WAS SUBSEQUENTLY SETTLED), [(b)(1)]

-- FSB INTERNATIONAL BANK: ANOTHER WELL-REGARDED ENTITY, THIS EARK IS RUN BY MUHAMMAD HAYATU-DEEN, A PROMINENT NORTHERNER [(b)(1)]

[(b)(1)]

-- NOLCHEM (DOWNSTREAM PETROLEUM): EFFORTS TO PERSUADE SHELL TO RAISE ITS EXISTING EQUITY TO BECOME THE CORE INVESTOR/OPERATOR FOUNDERED. AFTER SHELL REFUSED TO PROMISE NOT TO RESELL ITS SHARES FOR AT LEAST TWO YEARS. THERE WAS NO OTHER BIDDER FOR NOLCHEM AFTER SHELL DROPPED OUT, SO BIDDING HAS BEEN READVERTIZED. [(b)(1)]

- 3. (C) THE NIGERIANS ARE LEARNING THAT IT IS ONE THING FOR EXISTING EQUITY HOLDERS TO EXPAND THEIR INVESTMENTS IN ALREADY VIABLE ENTERPRISES. HOWEVER, IT IS APPARENTLY STILL A BRIDGE TOO FAR FOR FOREIGN INVESTORS WITHOUT PRIOR NIGERIAN EXPOSURE TO TAKE THE PLUNGE. THE GON SUSPENDED SOME TELECOM AND OFFSHORE OIL LICENSES IN PART TO GET RID OF NON-PERFORMING OR OTHERWISE MARGINAL NIGERIAN COMPANIES, BUT THEIR AIM OF ATTPACTING THE INTERNATIONAL BIG BOYS HAS FOUNDERED. AT LEAST IN TELECOMS. IN THE CURRENT GSM CELL PHONE LICENSING ROUND, THE SEVEN FIRMS SHORT-LISTED FOR THE FOUR LICENSES INCLUDE ONLY ONE FOREIGN BIDDER, MIN. A SECONDARY SOUTH AFRICAN PROVIDER, THE OTHERS ARE ESSENTIALLY LOCAL.
- 4. (C) BPE APPEARS TO UNDERSTAND AND PLACE A PREMIUM ON THE NEED FOR A STRONG REGULATORY AND LEGAL FRAMEWORK BEFORE STARTING THE PRIVATIZATION OF REGULATED BUSINESSES. [(b)(1)]

  BPE IS ARGUING THAT

[(D)(1)] BPE IS ARGUING THAT
THE GSM LICENSING PROCESS SHOULD BE SUSPENDED AND
DEFERRED. (BPE INVOKES SIMILAR LOGIC TO ARGUE AGAINST
THE ENROW POWER BARGES/IPP CONTRACT, THOUGH OTHER
FACTORS IN THIS COMPLICATED ISSUE ARE ALSO INVOLVED
-- REF B.)

[(b)(1)]

[(b)(1)]

LAGOS 03 OF 05 527

[(b)(1)]

CORRUPTION: STILL ROTTEN AROUND THE CORE

[(b)(1)]

[(b)(1)]

11. (C) THE PROBE OF THE TROUBLED AND NOW SHUT-DOWN MAFCON FERTILIZER FACTORY HAS BEEN EXCEPTIONALLY LIVELY, COMPELLING PRIOR MANAGERS AND SUPERVISORY MINISTERS TO MAKE SOME STARTLING STATEMENTS. THE RECENTLY SACKED MANAGING DIRECTOR ADMITTED THAT HE HAD FALSIFIED INVOICES TO BENEFIT A FIRM TIED TO HIS WIFE. HE ALSO ALLEGED THAT THE ABUBAKAR REGIME DIRECTED NAFCON TO DIVERT THE NAIRA EQUIVALENT OF USD 100,000 TO THE OBASANJO PRESIDENTIAL CAMPAIGN. (ON FEBRUARY 14, OBASANJO PUBLICLY DENIED RECEIVING NAFCON FUNCS.) A FORMER MINISTER DECLARED THAT NAFCON'S ONLY HOPE FOR RESUSCITATION IS TO BRING BACK EXPATRIATE

SUBSIDIES: PRACTICE GETS THE BETTER OF PRINCIPLE

LAGOS 04 OF 05 527

12. (SBU) TAKING THEIR LEAD FROM OBASANJO, IN 1999 THE

GON VIGOROUSLY DEFENDED THE MORALITY AND ECONOMIC UTILITY OF SUBSIDIES THAT QUOTE HELP PEOPLE UNQUOTE. THEREFORE, OBASANJO'S ANNOUNCEMENT IN HIS DECEMBER BUDGET SPEECH THAT HE WAS DEREGULATING DOWNSTREAM PETROLEUM PRICES WITH QUOTE IMMEDIATE EFFECT UNQUOTE WAS, IN THE EYES OF MANY OBSERVERS, HIS BIGGEST ECON SURPRISE SINCE TAKING OFFICE. LABOR-AND NATIONAL ASSEMBLY MEMBERS RAILED AGAINST ANY PRICE INCREASE, BUT SOME SORT OF PRICE HIKE SEEMS INEVITABLE, PERHAPS AS PART OF A CEAL WITH LABOR ON RAISING THE MINIMUM WAGE. SURFRISE AT OBASANJO'S MOVING TO BOOST PRICES STEMMED IN PART FROM THE ABSENCE OF IMF PRESSURE TO END THE SUBSIDY. ONE MOTIVATION MAY HAVE BEEN TO ENHANCE THE PRIVATIZATION PROSPECTS OF THE DOWNSTREAM FIRMS WHICH WE NOW HAVE REASON TO BELIEVE OBASANJO WAS THEN COMMITTING TO PURSUE.

13. (C) PERHAPS EVEN MORE STARTLING WAS THE FEBRUARY
12 PRESS REPORT THAT GON SPOKESMAN SARUMI HAD CONFIRMED
WHAT OFFICIALS HAD BEEN PRIVATELY PROMISING FOR MONTHS:
THE FY2000 BUDGET WOULD CONTAIN NO MONEY FOR FERTILIZER
SUBSIDIES. ONE OF THE ARGUMENTS USED TO SCUTTLE THE
ENRON CONTRACT (AT LEAST ITS ORIGINAL VERSION) WAS THAT
IT WOULD COST THE GON TOO MUCH IN PRICE SUBSIDIES.
COMBINED WITH THE LONG-OVERDUE ABOLITION IN JANUARY
OF THREE INEFFECTIVE, STATIST AGRICULTURAL PARASTATALS,
OBASANJO MAY BE TAKING A MORE MARKET-ORIENTED APPROACH
TO WHAT HE HAS CORPECTLY IDENTIFIED AS NIGERIA'S MOST
IMPORTANT SOCIO-ECCNOMIC SECTOR.

OLD HABITS IN THE NEW NIGERIA

[(b)(1)]

B) FOREIGN DEBT/LOOTED FUNDS FIXATION: DESPITE THE WINDFALL FROM SURGING OIL PRICES, CBASAMJO REMAINS FIXATED ON FOREIGN DEET RELIEF, LARGELY AS A POLITICAL CONCEIT. PAISING IT WITH VIRTUALLY EVERY INTERNATIONAL AUDIENCE. HE SHARES THE WIDESPREAD NIGERIAN VIEW THAT MOST IF NOT ALL OF THE DEET IS ILLEGITHMATE BECAUSE IT WAS INCURRED BY MILITARY REGIMES, WENT TO NON-VIABLE ENTERPRISES FROM VENDORS WHO PUT PROFIT ABOVE DUE DILIGENCE, AND NIGERIA IS A POOR COUNTRY THAT HAS ALREADY DUTIFULLY PAID BACK THE PRINCIPAL MANY TIMES OVER. [(b)(1)]

[(b)(1)]

LAGOS 05 05 05 527 [(b)(1)]

[(b)(1)]

HOW THE GON WOULD USE WINDFALL REVENUE IS A GOOD BUT VERY OPEN QUESTION. OVERALL GON SPENDING, ESPECIALLY ON SOCIAL MATTERS, REMAINS CONSTRAINED, AND THE ECONOMY HAS YET TO SEE THE EXTRA OIL MONEY. THE GON HAS MADE SOME BIG PROMISES. SUCH AS 20,000 NEW JOES IN EACH OF THE JESTAIES. JUE CREATION, IN THE NIGER DELTA AND ELSEWHERE, IS VITAL AND COULD FOCUS ON LABOR-INTENSIVE INFRASTRUCTURE RECONSTRUCTION. HOWEVER, ANOTHER IMPORTANT WILD CARD IS THE FINAL CONTOURS OF THE NEW BUDGET NOW BEING WRANGLED OVER BY THE NATIONAL ASSEMBLY AND THE EXECUTIVE BRANCH. IN OLD AND NEW DEMOCRACIES ALIKE, BUDGET BALLS ARE SOMETIMES DROPPED.

TWADDELL NNNN

End Cable Text

Printed By: Alex Martschenko 02/18/2000 07:49:39 AM

### IMMEDIATE

## ...................... CONFIDENTIAL

# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

B3/18272 831219

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MID=200006302361

831219 83/18272 MID=200006307363

[(b)(1), (b)(4)]

CAVEAT (S) =

HANDLE VIA

ACTION = [TRS]BOI (1),GI (1), IBRD (1), IDB (1), IDC (1), IDD (1), IMB (1) IMF (1) , ISN (1) , ITF (1) , ITI (1) , OIMF (1) , QC (1) , SEN (-) , UO (1) , XÃÃ (1) , .... XL | (1)

CRC = 8E62

OO RUEATRS DE RUEHC #9767/81 8631713 ZNY CCCCC ZZH 0 831788Z MAR 88 FM SECSTATE WASHDO TO RUEHOS/AMEMBASSY LAGOS IMMEDIATE 8711 INFO RUEHUJA/USLO ABUJA IMMEDIATE 1521 RUEATRS/TREASURY DEPT WASHDC 0597 RUCPDOC/USDOC WASHDC 1668 RHEBAAA/USDOE WASHDC 1278 CONFIDENTIAL SECTION 81 OF 82 STATE 839767

E.O. 12958: DECL: 02/28/08 TAGS: BEXP, ENRG, EINV, EFIN, ECON, PGOV, NI SUBJECT: ENRON - DEMARCHE REQUEST FOR TRIPARTITE MEETING OF ENRON: WORLD BANK, AND GON

REF: LAGOS 492 AND PREVIOUS

CLASSIFIED BY DEPUTY ASSISTANT SECRETARY WITNEY SCHNEIDMAN, FOR REASONS 1.5 (B) AND (D).

- 1. (C) THIS IS AN ACTION CABLE: SEE PARA 8.
- (SBU) IN A MEETING ON FRIDAY, FEBRUARY 25, ENRON OFFICIALS CHRIS LONG, JOHN HARDY, AND KEITH SPARKS CAME TO DEPT TO EXPLAIN THEIR VIEW OF EVENTS SURROUNDING THE STALLED ENROW CONTRACT TO PROVIDE ADDITONAL ELECTRICAL POWER TO LAGOS STATE. THEY ALSO LEFT A POINT-BY-POINT REBUTTAL OF WORLD BANK OBJECTIONS TO THE CONTRACT FAXED TO ECONOFF MCCULLOUGH).
- 3. (C) THE ENRON OFFICIALS BRIEFLY DESCRIBED THEIR EFFORTS OVER THE PAST TWO AND ONE-HALF MONTHS TO CONVINCE THE GON TO HONOR ITS CONTRACTUAL OBLIGATIONS AND MOVE FORWARD WITH THE PROJECT. [(b)(1), (b)(4)]

5. (SBU) ENRON VIEWED THE WORLD BANK'S SECOND CATEGORY OF OBJECTIONS, LEGAL AND FISCAL CONCERNS BASED ON AN EARLIER VERSION OF THE AGREEMENT, AS OBVIATED BY THE FINAL DEAL.

[(b)(4)]

6. (C) [(b)(1)]

7. (C) DEPARTMENT SHARES ENRON'S AND THE EMBASSY'S CONCERN

### IMMEDIATE

### CONFIDENTIAL

### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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THAT THIS SITUATION COULD UNRAVEL TO THE POINT WHERE IT
WOULD SEND A DAMAGING, NEGATIVE SIGNAL TO THE
INTERNATIONAL BUSINESS COMMUNITY ABOUT THE POSSIBILITY OF
DOING BUSINESS IN NIGERIA. IF THE GOVERNMENT DISAVONS THE

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Ø31219 Ø3/1827Z

[(b)(1)]

E.O. 12958: DECL: 82/28/88

TAGS: BEXP, ENRG. EINV. EFIN. ECON. PGOV. NI

SUBJECT: ENRON - DEMARCHE REQUEST FOR TRIPARTITE MEETING

OF ENROW, WORLD BANK, AND GON

CONTRACT AND ENRON WALKS AWAY, IT ALSO WOULD BE A REAL BLOW TO OUR EFFORTS TO ENCOURAGE AMERICAN INVESTORS. ENRON BELIEVES THE BEST WAY FORWARD NOW IS FOR THE GON TO CONVENE A MEETING OF THE THREE PARTIES INVOLVED

[(b)(1), (b)(4)]

 (SBU) WE HAVE MADE A REQUEST FOR INFORMATION ON A WORLD BANK DELEGATION VISIT AND WILL E-MAIL POST WITH DETAILS AS SOON AS THEY ARE KNOWN.

 (C) DEPT WOULD APPRECIATE A PROGRESS REPORT FROM THE EMBASSY.

TALBOTT

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[(b)(1)]

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ENRON

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MID=200004501818

828183

14/17472

MID=200004501818 EL-RUFAL THE DIRECTOR GENERAL OF THE BUREAU OF PUBLIC

928183 14/17472

CAVEAT (S) =

HANDLE VIA

ACTION = [TRS]BOI (1) , GI (1) , IDB (1) , IDC (1) , IMB (1) , ISN (1) , ITI (1)

OIMF (1) , QC (1) , SEN (-) , UG (1) , XAA (1) , XL I (1)

CRC = 3C85

PP RUEATRS

DE RUEHOS #8492/81 8451559

ZNY CCCCC ZZH

P 1415597 FEB 00

FM AMEMBASSY LAGOS

TO RUEHC/SECSTATE WASHDC PRIORITY 8127

INFO RUEHUJA/USLO ABUJA 1711

RHEBAAA/USDOE WASHDC

RUCPDOC/USDOC WASHDC

RUEATRS/DEPTTREAS WASHDC

BT

CONFIDENTIAL LAGOS 888492

E.O. 12958: DECL: 2/12/03

TAGS: ENRG, ETTC, EINV, PGOV, NI

SUBJECT: NIGERIAN UP UPBEAT ON ENRON CONTRACT BUT

OBSTACLES REMAIN

REF: LAGOS 8453 AND PREVIOUS (NOTAL)

CLASSIFIED BY ECON CHIEF MCCULLOUGH, REASON PARA 1.5 B.

1. (C) SUMMARY. VP ATIKU ABUBAKAR ASSURED US THAT PRICING AND OTHER ISSUES HOLDING UP THE ENRON CONTRACT ARE BEING RENEGOTIATED AND WILL BE RESOLVED WITHIN ONE MONTH. OPPOSITION TO THE CONTRACT FROM SEVERAL FRONTS, HOYEVER, REMAINS STRONG. THE HEAD OF THE BUREAU OF PUBLIC ENTERPRISES OBJECTS [(b)(1)]

2. (SBU) ON FEBRUARY 11, AMBASSADOR TWADDELL AND THE REVEREND JESSE JACKSON, VISITING NIGERIA AS THE HEAD OF AN OPERATION/RAINBOW PUSH TRADE DELEGATION, PRESSED IN A MEETING WITH VICE PRESIDENT ATIKU ABUBAKAR FOR THE RESOLUTION OF THE STALEMATED ENRON CONTRACT (REFTEL). OBASANJO ASSURED THE AMBASSADOR AND REVEREND JACKSON THAT THE ENRON CONTRACT IS NOT STILLBORN AND WILL BE SUCCESSFULLY RENEGOTIATED IN TWO TO FOUR WEEKS. HE STATED THAT TALKS UNDERWAY BETWEEN NEPA AND ENRON ARE PROGRESSING ON THE ISSUES OF PRICING AND CONTRACT DURATION. POWER MINISTER IGE, IN A SUBSEQUENT ENCOUNTER, REMARKED TO THE AMBASSADOR THAT GENERAL OPPOSITION TO THE CONTRACT IS EBBING.

3. (C) ALSO ON FEBRUARY 11, ECON CHIEF MET WITH MASIR

ENTERPRISES (BPE). THE IMPLEMENTATION BODY OF THE MATIONAL COUNCIL ON PRIVATIZATIO LED BY UP ATIKU. NOING THAT THE MEDIA AND OTHERS HAVE PAINTED EL-ROFAI AND ATIKU (POLITICAL ALLIES AS WELL AS ETHNIC KINSMEN) AS LEADING THE CHARGE AGAINST THE CONTRACT, WE ASKED EL-RUFAI TO ARTICULATE HIS VIEWS. EL-RUFAI ACCEPTED THE CHARACTERIZATION, THOUGH HE CLAIMED THE CONTRACT WAS IN BIG TROUBLE FOR VARIOUS REASONS BEFORE HE ENTERED THE FRAY. HIS CONCERNS, HE SAID, ARE:

[(b)(1), (b)(4)]

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## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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MID=200004501818

020183 14/17472

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[(b)(1)]

[(b)(1)]

4. (SBU) EL-RUFAI STATED THAT VP ATIKU HAD EVADED MEETING WITH ENROW UNTIL THE BPE HAD COMPLETED ITS REVIEW OF THE CONTRACT, BUT THAT THEY WOULD BE PREPARED TO DISCUSS THE ISSUES DURING THEIR UPCOMING VISIT TO WASHINGTON.

[(b)(1)]

TWADDELL

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# UNCLASSIFIED

# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

Envor

PAGE Ø1 MID=200003900521 016497 08/07507 CAVEAT (S) = HANDLE VIA ACTION = [TRS] BOI (1) . IBRD (1) . IDB (1) . INN (1) . OIMF (1) . QC (1) . SEN (-) UO (1) . XAA (1) . XLI (1)

PP RUEATRS DE RUEHOS # 0416 0390748 ZNR UUUUU ZZH P Ø8Ø748Z FEB ØØ FM AMEMBASSY LAGOS TO RUEHC/SECSTATE WASHDC PRIORITY 0051 INFO RHEBAAA/USDOE WASHDC RUEHUJA/USLO ABUJA 1689 BT UNCLAS LAGOS 000416

SENSITIVE BUT UNCLASSIFIED -- HANDLE ACCORDINGLY

E.O. 12958: N/A TAGS: ETTC: ECON: PGOV: NI SUBJECT: ENRON CONTRACT TO BE REVIEWED

REF: LAGOS Ø132

- 1. (U) ACCORDING TO LOCAL MEDIA REPORTS: ON FEBRUARY 4 BUREAU OF PUBLIC ENTERPRISE DIRECTOR GENERAL NASIR EL-RUFFAI SAID THAT THE GON WILL QUOTE REVIEW UNQUOTE ENRON'S CONTRACT TO GENERATE POWER FROM BARGES IN LAGOS THE REVIEW WILL REPORTEDLY BE CONDUCTED BY THE STATE. GON COMMITTEE RECENTLY SET UP TO GUIDE THAT SECTOR TOWARD PRIVATIZATION.
- 2. (SBU) COMMENT: IN GON PARLANCE, REVIEWING IS A NORMALLY LENGTHY AND MURKY PROCESS THAT IMPLIES AN ALLEGATION OF SOME SORT OF MALPRACTICE. BPE'S RUFF A KNOWN OPPONENT OF THE ENRON CONTRACT (REFTEL). BPE'S RUFFAI IS IF . THE GON IS IN FACT REVIEWING THE ENRON CONTRACT. PROSPECTS FOR BREAKING THE CONTRACT FREE ANYTIME SOON WOULD SEEM TO BE RECEDING.
- (SBU) COMMENT CONTINUED: THE GON'S FOOT DRAGGING ON A SIGNED CONTRACT SENDS NEGATIVE SIGNALS TO FOREIGN
  INVESTORS (REFTEL), MOREOVER, IF A COMPANY LIKE ENRON,
  REPUTED FOR NAVIGATING TURBULENT THIRD WORLD WATERS,
  CANNOT MAKE WORK WHAT IS, IN THE MINDS OF SOME, A QUOTE
  NO BRAINER UNQUOTE FOR NIGERIA, THEN WHO CAN? ON THE A QUOTE NO BRAINER UNQUOTE FOR NIGERIA: THEN WHO CAN? ON THE OTHER HAND, NIGERIAN AND EXPATRIATE BUSINESSMEN ARE INCREASINGLY VOCAL IN THEIR PRIVATE CRITICISM OF ENRON'S APPROACH TO NEGOTIATING AND THEN LAUNCHING ITS CONTRACT. PART OF THE DISCORD STEMS FROM WILDLY VARYING ESTIMATES OF WHAT THE CONTRACT WILL COST THE GON IN INCREASED SUBSIDIES, BUT ANOTHER ISSUE SEEMS TO BE ENRON'S ALLEGEDLY LEGALISTIC APPROACH TO BUSINESS IN A HIGHLY POLITICAL AND STILL PERSONALITY-BASED ENVIRONMENT. AS ONE PERHAPS JEALOUS INVESTMENT BANKER REMARKED TO US. ENRON SHOULD HAVE SURROUNDED ITSELF WITH FEWER LAWYERS AND MORE INTERMEDIARIES WELL AND FAVORABLY KNOWN TO THE RELEVANT MINISTRIES AND PARASTATALS.

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### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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MID=288884188758

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MID=288894188758

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CAVEAT (S) =

HANDLE VIA

[(b)(1), (b)(4)]

ACTION = [TRS]BOI (1) .GI (1) .IBRD (1) .IDB (1) .IDC (1) .IMB (1) .IMF (1)
IMM (1) .ITF (1) .OIMF (1) .QC (1) .SEM (-) .UO (1)

CRC = 3354

PP RUEATRS
DE RUEHOS #8453 8411128
ZNY CCCCC ZZH
P 181128Z FEB 88
FM AMEMBASSY LAGOS
TO RUEHC/SECSTATE WASHDC PRIORITY 8899
INFO RUEHUJA/USLO ABUJA 1699
RHEBAAA/USDOE WASHDC
BT
C O N F I D E N T I A L LAGOS 888453

E.O. 12958: DECL: 82/18/84 TAGS: EFIN: ENRG, ECON: PGOV: NI SUBJECT: ENRON CONTRACT ADRIFT

CLASSIFIED BY ECON CHIEF MCCULLOUGH, REASON PARA 1.5 B.

[(b)(1), (b)(4)]

2. (U) GON AND LAGOS STATE GOVERNMENT OFFICIALS (MOSTLY UNNAMED) CONTINUE TO TRADE ACCUSATIONS IN THE MEDIA ABOUT THE MERITS OF THE ENROW CONTRACT AND THE GON'S DECISION TO SUBJECT IT TO A FORMAL REVIEW. THE OPPOMENTS, CLAIMING ENDORSEMENT FROM THE WORLD BANK, ARGUE THAT THE CONTRACT WAS NOT COMPETITIVELY BID, IS TOO EXPENSIVE, AND UNFAIRLY PROTECTS ENROW FROM VARIOUS FINANCIAL CONTINGENCIES.

[(b)(1), (b)(4)]

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MID=288884189758

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[(b)(1), (b)(4)]

TWADDELL

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# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE Ø1 OF Ø2

MID=200007301718

836528 13/1641Z MID=288887381718

[(b)(1), (b)(4)]

836578

13/16412

CAVEAT (S) =

HANDLE VIA

ACTION = [TRS]GI (1) , IDB (1) , IDC (1) , IMB (1) , IMF (1) , ISN (1) , IFAS-(1)

CRC = 6831

ITF (1) . ITI (1) . OIMF (1) . QC (1) . SEN (-) . UO (1) . XAA (1) . XL I (1)

PP RUEATRS

DE RUEHOS #8868/81 8731621

ZNY CCCCC ZZH

P 131621Z MAR 88

FM AMEMBASSY LAGOS

TO RUEHC/SECSTATE WASHDC PRIORITY 8416

INFO RUEHUJA/USLO ABUJA 1853

RUEATRS/DEPTIREAS WASHDC

RUCPDOC/USDOC WASHDC

RHEBAAA/USDOE WASHDC

CONFIDENTIAL LAGOS 888868

E.O. 12958; DECL: 83/13/88

TAGS: BEXP, ENRG, EINV, EFIN, ECON, PGOV, NI SUBJECT: ENROW FRUSTRATED BY CONTRACT IMPASSE

REFS: A) LAGOS 8773 B) STATE 39767

CLASSIFIED BY AMBASSADOR, REASONS PARA 1.5 B AND D.

[(b)(1), (b)(4)]

2. (SBU) ON MARCH 18, ENROW UP SEAN LONG AND THREE NIGERIAN COLLEAGUES MET AT THE EMBASSY WITH AMBASSADOR. DCM. AND ECONCHIEF TO RECOUNT THEIR EFFORTS TO ADVANCE THE STALEMATED ENRON CONTRACT. THE MEETING PICKED UP FROM AN HOUR-LONG SESSION THE AMBASSADOR AND LONG HAD THE DAY BEFORE IN ABUJA.

[(b)(1), (b)(4)]

#### PRIORITY

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#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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MID=200007301718

836528 13/1641Z

MID=200007301718 0365 11. (SBU) LIKE THE REFINERIES: THE PERFORMANCE OF MEPA

HAS ACTUALLY DETERIORATED SINCE THE ADVENT OF THE OBASANJO ADMINISTRATION LAST YEAR BECAUSE PARASTATAL

836528 13/16412

[(b)(4)]

MEXT STEPS

[(b)(4)]

CORRUPTION, MISMANAGEMENT, INCOMPETENCE, AND, TO A
LESSER EXTENT, RESOURCE CONSTRAINTS REMAIN FUNDAMENTALLY
UNALTERED. MOST IF NOT ALL OF MIGERIA WAS THROWN INTO
DARKNESS ON MARCH 18 FOR AT LEAST 24 HOURS DUE TO A
CATASTROPHIC MEPA "SYSTEM FAILURE." PRIVILEGED
RESIDENTS, SUCH AS THE U.S. MISSION, WERE CUSHIONED BY
AUTONOMOUS GENERATORS.) THE MATIONAL BLACKOUT, THE
SECOND IN THE PAST FOUR-YEARS, UNDERSCORES THE DESPERATE
MEED OF MIGERIA, AND ESPECIALLY LAGOS, THE COUNTRY'S
ECONOMIC MERVE CENTER, FOR POWER. SOCIAL TENSIONS,
CRIME, AND ECONOMIC MARDSHIP ARE ALL EXACERBATED BY
INCESSANT POWER OUTAGES, WHICH ARGUABLY CONSTITUTE THE

GREATEST BARRIER TO ECONOMIC INVESTMENT AND REGENERATION

[(b)(1), (b)(4), (b)(5)]

IN NIGERIA.

[(b)(1), (b)(4)]

TWADDELL BT ##868 6831

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[(b)(1)]

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MID=199914681141

832921 26/12357 MID=199914681141

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CAVEAT (S) =

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ACTION = [TRS3G! (1) , |BRD (1) , |CM (1) , |DB (1) , |DC (1) , |DD (1) , LMA (1) ITF (1) . | I | (1) . | ITT (1) . O | MF (1) . QC (1) . SEN (-)

CRC = 4A56

OO RUEATRS DE RUEHKA #1242/81 1461286 ZNY CCCCC ZZH 0 261286Z MAY 99 FM AMEMBASSY DHAKA TO RUEHC/SECSTATE WASHDC IMMEDIATE 3819 RUCPDOC/USDOC WASHDC 8535 RHEBAAA/USDOE WASHDC INFO RUEHNE/AMEMBASSY NEW DELHI 1384 RUEHIL/AMEMBASSY ISLAMABAD 5988 RUEHLM/AMEMBASSY COLOMBO 3889 RUEHKT/AMEMBASSY KATHMANDU 3971 RUEHNEC/AMCONSUL CALCUTTA 8575 RUEHLO/AMEMBASSY LONDON 8494 RUEATRS/DEPTTREAS WASHDC

LONDON FOR SUTPHEN STATE PASS OPIC: EXIM: TDA: USDOC: USAID

E. O. 12958: #5/25/84 TAGS: ENRG. ECON. EAID. EIND. ETRD. EAGR. BG SUBJECT: BANGLADESH'S CONTROVERSIAL "CRASH" POWER PROGRAM

CONFIDENTIAL SECTION 81 OF 83 DHAKA 881242

 U) CLASSIFIED BY AMBASSADOR JOHN C. HOLZMAN. REASON 1.5 (E)

#### SUMMARY

2. (C) RESPONDING TO MOUNTING PRESSURE FROM THE PUBLIC AND OPPOSITION POLITICAL PARTIES: THE GOVERNMENT HAS LAUNCHED A "CRASH POWER PROGRAM" TO ADD NEARLY FIFTY PERCENT TO EXISTING POWER SUPPLIES BY BRINGING ON-STREAM 588 MW OF POWER WITHIN SIX MONTHS AND ANOTHER SOF MY SIX MONTHS THEREAFTER. [(b)(1)]

BDG LAUNCHES CRASH POWER PROGRAM

4. (U) IN RESPONSE TO INCREASING POWER SHORTAGES ESTIMATED OFFICIALLY AT BETWEEN 288 - 388 MV. UNOFFICIALLY AT TWICE THAT RATE OR MORE). THE GOVERNMENT OF BANGLADESH (BDG) HAS LAUNCHED A "CRASH POWER PROGRAM" TO ADD 588 MEGAWATTS OF NEW GENERATION WITHIN SIX MONTHS: AND ANOTHER SOO MY SIX MONTHS AFTER THAT. THIS WOULD ADD MEARLY 58 PERCENT TO THE CURRENT POWER GENERATION OF APPROXIMATELY 2288 MW. THE POWER CRISIS IS A GROWING POLITICAL PROBLEM. THE OPPOSITION PARTIES HAVE SEIZED THE ISSUE -- AS WELL AS THE WATER SHORTAGES CAUSED BY THE POWER OUTAGES -- AS RALLYING POINTS IN THEIR POPULAR CAMPAIGN AGAINST THE COVERNMENT. THE BDG RESPONDED IN MID-APRIL BY SACKING THE THEN-CHAIRMAN OF THE POWER DEVELOPMENT BOARD (PDB) AND APPOINTING A WELL-RESPECTED ENGINEER WITH A "CAN-DO" TRACK RECORD AT THE LOCAL GOVERNMENT AND RURAL DEVELOPMENT MINISTRY. LAST YEAR AT ROUGHLY THE SAME TIME: WHEN POWER SHORTAGES WERE PARTICULARLY ACUTE: THE PRIME MINISTER FIRED HER ENERGY MINISTER AND ASSUMED THE PORTFOLIO, WHICH SHE STILL HOLDS.

[(b)(1)]

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MID=199914681141

832921 26/12352

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26/123

[(b)(1)]

-- UNREALISTIC TIMETABLE: THE NEGOTIATIONS FOR THE PROGRAM WILL TAKE LONGER THAN STATED BY THE BDG, SINCE NEEDED SPADEWORK, SUCH AS A DETAILED REQUEST FOR PROPOSAL, HAS NOT BEEN DONE.

STAKES FOR U.S. COMPANIES

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LONDON FOR SUTPHEN STATE PASS OPIC: EXIM: TDA: USDOC: USAID

E.O. 12958: 05/25/84
TAGS: ENRG. ECON. EAID. EIND. ETRD. EAGR. BG
SUBJECT: BANGLADESH'S CONTROVERSIAL "CRASH" POWER
PROGRAM

[(b)(1)]

7. (C) EMRON HAS BEEN TRYING FOR OVER A YEAR TO SELL THE BDG EMERGENCY POWER--ON AN UNSOLICITED BASIS-- TO MEET THE SUPPLY-DEMAND GAP. WHEN THE CRASH PROGRAM WAS ANNOUNCED, THE BDG WAS ABLE TO TAXE THE ENRON PROPOSAL AND, WITHOUT ACCEPTING IT, TOUT IT TO THE PUBLIC AS EVIDENCE THAT IT WAS SERIOUS ABOUT DOING SOMETHING ABOUT THE POWER SHORTAGE. [(b)(1), (b)(4)]

9. (SBU) [(b)(4)]

OGDEN, WITH PARTNERS EL PASO and Wartsila, has brought a 110 MW power barge to bangladesh, [(b)(4)]

SOME SNIPPETS OF THE "CRASH PROGRAM"
C O N F I D E N T I A L SECTION 83 OF 83 DHAKA 881242

LONDON FOR SUTPHEN STATE PASS OPIC: EXIM: TDA: USDOC: USAID

E.O. 12958: #5/25/84

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#### CONFIDENTIAL

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TAGS: ENRG, ECON, EAID, EIND, ETRD, EAGR, BG
SUBJECT: BANGLADESH'S CONTROVERSIAL "CRASH" POWER
401242
PROGRAM
4056
NNNN

18. ISBU) PRESS REPORTS HAVE STATED THAT SOME OF THE PUBLIC SECTOR POWER PLANTS TO BE BUILT IN THE CRASH PROGRAM COULD POSSIBLY BE ADMINISTERED BY THE DHAKA ELECTRIC SUPPLY AUTHORITY (DESA). THE MOTORIOUSLY CORRUPT AND THEFFICIENT GOVERNMENT DISTRIBUTION COMPANY: IN ADDITION THE GOVERNMENT-OWNED RURAL ELECTRIFICATION BOARD (REB) HAS ISSUED A CALL FOR PROPOSALS FROM THE PRIVATE SECTOR TO BUILD BETWEEN 13 TO 16 18 MW PLANTS.

12. (U) BANGLADESH'S DEMAND PEAKS DURING THE EVENING HOURS, WHEN LOADSHEDDING IS HIGHEST. HOWEVER, SOME AREAS ARE RECEIVING LESS POWER THAN THEY NEED THROUGHOUT THE DAY (AS PERSPECTIVE, ONLY 15 TO 18 PERCENT OF BANGLADESH'S ESTIMATED 126 MILLION PEOPLE HAVE ACCESS TO ELECTRICITY). APRIL IS THE MONTH WHEN INCREASING LOADSHEDDING STARTS IN EARNEST, AS PRE-MONSOON HEAT (AND THE AIR CONDITIONING NEEDS THAT ACCOMPANY IT) AND SPRING IRRIGATION (ELECTRICITY POWERS MANY OF THE WATER PUMPS FARMERS NEED FOR RICE CROPS) COMBINE TO PUT AN ALREADY-TENUOUS SUPPLY/DEMAND BALANCE EVEN FURTHER OUT OF KILTER. IN ADDITION TO THE GENERATION SHORTFALL: POOR TRANSMISSION AND DISTRIBUTION SYSTEMS MAKE THE SITUATION EVEN WORSE: BREAKDOWNS IN TRANSMISSION LINES AND TRANSFORMERS IN THE LAST SEVERAL WEEKS HAVE CAUSED HEAVIER THAN USUAL LOADSHEDDING IN THE CAPITAL OF DHAKA AND ELSEWHERE.

IMPLICATIONS FOR U.S. POLICY

[(b)(1)]

**HOLZMAN** 

CONFIDENTIAL

#### PRIORITY

#### UNCLASSIFIED

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MID=199832801117

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24/12272

CAVEAT (S) = HANDLE VIA

ACTION = [TRS]CALL (3), GI (1), ICM (1), ICS (1), IDB (1), IDC (1), JNA (1) ITF (1) . ITI (1) . OIMF (1) . QC (1) . SEN (-)

CRC = 87F5

PP RUEATRS . DE RUEHKA #3481/81 3281851 ZNR UUUUU ZZK P 2418517 NOV 98 **FM AMEMBASSY DHAKA** TO RUCPDOC/USDOC WASHDC PRIORITY 8458 RUEHC/SECSTATE WASHDC PRIORITY 2476 INFO RHEBAAA/USDOE WASHDC RUEATRS/DEPT OF TREASURY WASHINGTON DC X/AMEMBASSY DUSHANBE 8883 RUSBAY/AMCONSUL MUMBAI 8648 RUEHAH/AMEMBASSY ASHGABAT 8897 RUEHLO/AMEMBASSY LONDON 8279 RUEHNE/AMEMBASSY NEW DELHI 8922 RUEHDL/AMEMBASSY DUBLIN 8838 RUEHLM/AMEMBASSY COLOMBO 3699

RUEHNT/AMEMBASSY TASHKENT 0096 RUEHAD/AMEMBASSY ABU DHABI 6543 RUEHIL/AMEMBASSY ISLAMABAD 5583 RUEHKT/AMEMBASSY KATHMANDU 3725 RUEHGP/AMEMBASSY SINGAPORE 1524 BI UNCLAS SECTION BY OF B8 DHAKA BB34B1

RUEHML/AMEMBASSY MANILA 0786

SENSITIVE BUT UNCLASSIFIED

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STATE FOR SA/PAB, EB/ESC, AND INR/SA/SOA STATE PASS EXIMBANK, OPIC AND TDA USDOC FOR 4538 ITA/ANESA/OSA, 6888 ADVOCACY CENTER DEPT OF ENERGY FOR TOM CUTLER TREASURY FOR DASIA LONDON FOR SUIPHEN DUBLIN FOR ENERGY OFFICER MANILA FOR USED ADB AND SCO BARNES

E.O. 12958: 11/24/83 TAGS: EPET, ENRG, ECON, BG SUBJECT: BANGLADESH: ENERGY SECTOR UPDATE

REF: DHAKA 1597

1. (U) THIS MATERIAL SHOULD BE CONSIDERED BUSINESS CONFIDENTIAL AND SHOULD NOT BE SHARED WITH PRIVATE COMPANIES.

SUMMARY

2. (SBU) BANGLADESH'S GAS AND POWER SECTORS ARE BECOMING MORE ACTIVE AGAIN, ALTHOUGH NOT FOR ALL U.S. COMPANIES. IN GAS, OCCIDENTAL PETROLEUM EXPECTS TO RECEIVE FORMAL APPROVAL ON NOVEMBER 25 FOR AN EXTENSION OF ITS SECOND WORK PROGRAM IN BLOCKS 13 AND 14. AFTER MANY MONTHS OF DELAYS. OXY REMAINS ON SCHEDULE TO DELIVER 188 MMCFD OF GAS TO THE GOVERNMENT BY JANUARY. THE OTHER INTERNATIONAL PRODUCERS OF GAS, THE SANGU DEVELOPMENT TEAM OF SHELL/CAIRN/HALLIBURTON, COULD SOON INCREASE DELIVERY OF THEIR OFFSHORE GAS TO 188 OR MORE MMCFD FROM THE CURRENT 68 MMCFD THEY HAVE BEEN DELIVERING SINCE JUNE. TWO OTHER U.S. COMPANIES HOPE TO BEGIN EXPLORATORY DRILLING FOR GAS IN 1999. ON THE SECOND BID ROUND FOR REMAINING GAS EXPLORATION RIGHTS, NO INVITATIONS TO WINNERS (ANNOUNCED IN JULY) HAVE YET BEEN MADE TO START NEGOTIATIONS. THE LACK OF ACTION EXTENDS TO THE AWARD OF KEY BLOCKS 9, 18 AND 11, WHICH REMAIN IN LIMBO, TO THE CHAGRIN OF INTERESTED GIANTS CHEVRON/TEXACO, MOBIL, AND SHELL. UNOCAL, MEANWHILE, EXPECTS THE GOVERNMENT WILL SOON HAVE A PROPOSAL FOR THE EMBASSY TO PASS TO THE U.S. TRADE AND DEVELOPMENT AGENCY (TDA), REQUESTING A CONSULTANT TO EVALUATE THE VARIOUS CONTRACTS FOR THE WESTERN REGION INTEGRATED PROJECT (WRIP), UNOCAL'S USD 688 MILLION PROPOSAL TO DEVELOP A GAS FIELD, BUILD PIPELINES AND CONSTRUCT/OPERATE POWER PLANTS IN THE UNDERDEVELOPED WEST. ENRON HAS COME UP WITH A SOMEWHAT SIMILAR PLAN FOR NORTH BENGAL, PROPOSING TO BUILD A PIPELINE TO FEED A FERTILIZER-FOR-EXPORT PLANT.

3. (SBU) IN THE POWER SECTOR: AES OF THE U.S. CONTINUES SLOW NEGOTIATIONS WITH THE GOVERNMENT ON THE MEGHNAGHAT POWER PLANT (458 MW); THE COMPANY IS TRYING TO ARRANGE FINANCING FOR THE 368 MV HARIPUR PLANT CONTRACT IT SIGNED WITH THE BDG IN SEPTEMBER. MEANWHILE, MARUBENI OF JAPAN, THE SECOND PLACE BIDDER ON THE MEGHNAGHAT CONTRACT WON BY AES, IS TRYING TO GET A DIRECT AWARD OF THE CONTRACT FOR THE 458 MW PLANT FOR THE SECOND PHASE OF THE MEGHNAGHAT PROJECT. OPIC MAY FINANCE AND PROVIDE POLITICAL RISK INSURANCE TO ONE 118 MW BARGE PROJECT INVOLVING U.S. COMPANIES OGDEN ENERGY AND EL PASO. SMITH COGENERATION HAS FOUND A FINANCIAL PARTNER, THERMO ECOTEK OF MASSACHUSETTS: AND PROBABLY HAS ONE LAST SHOT AT GETTING ITS 110 MW BARGE PROJECT GOING; BOTH BARGE PROJECTS ARE OVER A YEAR BEHIND SCHEDULE DUE TO PROBLEMS ARRANGING FINANCING. U.K.-BASED, U.S.-OWNED MPI WILL LIKELY BEGIN NEGOTIATIONS WITH THE BDG IN LATE NOVEMBER FOR THE BAGHABARI 188 MW PLANT IN WESTERN BANGLADESH. ENRON:

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24/12277

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IN THE MEANTIME, HAS MADE AN UNSOLICITED PITCH TO
PROVIDE 168 MW OF EMERGENCY POWER, WHICH THE BDG IS
CONSIDERING. THE CONSORTIUM DMAJORITY OWNED BY COASTAL—
ENERGY OF HOUSTON) WHICH NOW OWNS AND OPERATES
BANGLADESH'S FIRST OPERATING PRIVATE POWER PLANT, A 118
MW BARGE IN KHULNA, HAS AN AGREEMENT WITH THE BDG TO
BUILD A NEARLY IDENTICAL BARGE 38 MILES UPRIVER.

UNCLAS SECTION 82 OF 88 DHAKA 883481

SENSITIVE BUT UNCLASSIFIED

STATE FOR SA/PAB. EB/ESC. AND IMP/SA/SOA
STATE PASS EXIMBANK, OPIC AND TDA
USDOC FOR 4538 ITA/AMESA/OSA. 6888 ADVOCACY CENTER
DEPT OF EMERGY FOR TOM CUTLER
TREASURY FOR OASIA
LONDON FOR SUTPHEN
DUBLIN FOR EMERGY OFFICER
MANILA FOR USED ADB AND SCO BARNES

E.O. 12958: 11/24/83 TAGS: EPET, ENRG, ECON, BG SUBJECT: BANGLADESH: ENERGY SECTOR UPDATE

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4. (SBU) GIVEN THE RELATIVE DOMINATION OF THE ENERGY AND GAS SECTORS BY U.S. COMPANIES, THERE SHOULD BE GREAT SCOPE FOR PROPOSED COOPERATION BETWEEN THE U.S. DEPARTMENT OF ENERGY AND THE BANGLADESH MINISTRY OF EMERGY, WHETHER IT BE IN GAS, POWER OR PIPELINE REGULATION, ENVIRONMENTAL ASSESSMENT, ALTERNATIVE ENERGY, PRICING OR OTHER AREAS. COMPANIES AND THE BDG NOW NEED TO IMPROVE THEIR OFTEN-STRAINED RELATIONSHIP, AND TO WORK TOGETHER TO FIGURE HOW BOTH CAN BENEFIT FROM ENERGY DEVELOPMENT IN THIS POTENTIALLY GAS-RICH BUT POLICY- AND POWER-POOR COUNTRY. HELPING IMPROVE THINGS WILL BE A TDA-FUNDED STRATEGIC GAS UTILIZATION STUDY, DUE TO START IN A FEW WEEKS; IT SHOULD GIVE THE BDG MORE INFORMATION ABOUT ENERGY DEVELOPMENT OPTIONS. A PROPOSED DECEMBER ENERGY ROUNDTABLE IN WASHINGTON WITH BDG ENERGY SECTOR OFFICIALS AND ENERGY COMPANIES BELONGING TO THE U.S.-BANGLADESH BUSINESS COUNCIL: INCLUDING DISCUSSIONS WITH THE DEPARTMENTS OF ENERGY AND INTERIOR ON POSSIBLE COOPERATION, ALSO SHOULD IMPROVE RELATIONS, INCREASE THE BDG'S KNOWLEDGE AND COMFORT LEVEL: AND PERHAPS EVEN HELP IT MAKE SOME DECISIONS ABOUT MARKET DEVELOPMENT. RIGHT NOW THE BDG IS STILL COOL AND CAUTIOUS TOWARD GAS EXPORTS TO INDIA. WHICH MUCH OF INDUSTRY IS PUSHING FOR. THE DOLLAR VALUE OF THE PROJECTS PENDING FOR U.S. COMPANIES IN THE GAS AND POWER SECTORS APPROACHES USD 1.5 TO 2.8 BILLION: AMPLE INCENTIVE FOR BOTH SIDES TO IMPROVE THE RELATIONSHIP. END SUMMARY.

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GAS SECTOR: SOME PROGRESS FOR CURRENT OPERATORS

#### OCCIDENTAL PETROLEUM

5. (SBU) OCCIDENTAL (WITH PARTNER UNOCAL) HAS OPERATED MITHOUT A CONTRACT SINCE JANUARY 1998 THE TWO-YEAR SECOND PHASE OF ITS WORK PROGRAM IN BLOCKS 13 AND 14. OXY NOW APPEARS TO BE ON THE VERGE OF RECEIVING THE EXTENSION, AFTER MONTHS OF HEAVY ADVOCACY BY THE USG AND EMBASSY. POLITICAL PRESSURE RESULTING FROM OXY'S JUNE 1997 GAS EXPLOSION, COMBINED MITH AM OUTSTANDING DISPUTED COMPENSATION CLAIM BY THE MINISTRY OF ENVIRONMENT AND FORESTS (FOR DAMAGES OF OVER USD 128 MILLION, VERSUS OXY'S ASSESSMENT OF USD 58,888), SLOWED THE APPROVAL PROCESS, LOCAL OXY REPRESENTATIVES TOLD ECONOFF NOVEMBER 18 THAT THE EXTENSION SHOULD BE SIGNED ON NOVEMBER 25.

6. (SBU) DESPITE THE LACK OF A CONTRACT, OXY HAS CONTINUED ITS GAS DEVELOPMENT WORK, AND SO IS ON SCHEDULE TO DELIVER 188 MILLION CUBIC FEET A DAY (MMCFD) -- NEARLY 15 PERCENT OF CURRENT DOMESTIC OUTPUT -- TO THE BDG SOMETIME IN JANUARY FROM THE JALALABAD FIELD: IN BLOCK 13. OXY ALSO HAS STARTED AN APPRAISAL DRILLING AND THREE DIMENSIONAL SEISMIC PROGRAM TO DETERMINE THE CONFINES OF ITS BIBIANA FIELD IN BLOCK 12, WHERE THE COMPANY HAS NO CONTRACT TROUBLES. THE BIBIANA FIELD IS BELIEVED TO CONTAIN 2.5 TRILLION CUBIC FEET (TCF) OF PROVEN RESERVES. IF SO, ITS GAS WOULD INCREASE THE COUNTRY'S PROVED RESERVES, CURRENTLY AT 18 TCF, BY 25 PERCENT (NOTE: VARIOUS INDUSTRY SOURCES SAY BANGLADESH COULD HAVE BETWEEN 38 TO 88 TCF OF GAS; IN COMPARISON, PROVED RESERVES FOR INDONESIA ARE 69 TCF. CANADA 67: PAKISTAN 27). OXY WOULD LIKE TO INCREASE THE SIZE OF THE EXISTING MORTH-SOUTH PIPELINE TO PERMIT MORE OF OXY'S GAS TO FLOW SOUTH TO THE NATIONAL GAS UNCLAS SECTION 83 OF 88 DHAKA 883481

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TREASURY FOR OASIA
LONDON FOR SUTPHEN
DUBLIN FOR ENERGY OFFICER
MANILA FOR USED ADB AND SCO BARNES

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GRID; IT HAD MADE A PROPOSAL TO BUILD THE LINE AND RECOVER THE COSTS FROM INCREASED GAS PRODUCTION, BUT IT APPEARS THE BDG WILL CALL FOR A TENDER INSTEAD.

HALLIBURTON/SHELL/CAIRN'S SANGU FIELD: PRODUCTION MAY GO UP, BUT COST RECOVERY DIFFERENCES REMAIN

7. (SBU) THE SANGU PROJECT, 48 KILOMETERS OFFSHORE FROM CHITTAGONG IN BLOCK 16, HAS BEEN DELIVERING 68 MMCFD OF GAS TO THE BDG SINCE MID-JUNE 1998. RECENT STATEMENTS BY BDG ENERGY OFFICIALS INDICATE THE GOVERNMENT MAY BE READY TO PURCHASE AN ADDITIONAL 48 MMCFD OR MORE OF GAS IN THE COMING WEEKS, LIKELY SPURRED BY FALLING PRODUCTION IN THE BDG'S OWN BAKHRABAD FIELD, AND BY ANTICIPATED INCREASED DEMAND FOR GAS TO FUEL A NEW BDG POWER PLANT AND A NOW-SHUTTERED BDG FERTILIZER PLANT. SANGU'S OFFSHORE GAS IS MORE EXPENSIVE THAN OXY'S GAS WILL BE, DUE TO SPECIAL COMPENSATION FOR OFF-SHORE COSTS IN THE PRODUCTION SHARING CONTRACT (PSC) CAIRN SIGNED WITH THE BDG. THE CONSORTIUM CAN BEGIN ITS "TAKE OR PAY" CONTRACT WITH THE BDG ONCE THE 188-DAY RUN-IN PERIOD ENDS IN DECEMBER 1998. UNDER THE TERMS OF THE CONTRACT, BANGLAGESH MUST EITHER TAKE DELIVERY OF 168 MMCFD OF GAS, OR PAY THE COMPANY FOR 80 PERCENT OF THAT AMOUNT. CONSORTIUM OFFICIALS HAVE ASKED THE BDG TO MEET WITH THEM IN MID-NOVEMBER TO NEGOTIATE GAS DELIVERIES AND TO FIX THE START OF THE TAKE OR PAY PERIOD. ON THE BACK BURNER FOR NOW, THE CONSORTIUM AND THE BDG STILL HAVE A USD 88 MILLION DIFFERENCE TO RESOLVE: PETROBANGLA HAS DISALLOWED THAT AMOUNT FROM THE COST OF THE SANGU DEVELOPMENT (PRODUCTION WELL. PIPELINE AND GAS PROCESSING PLANT).

8. (SBU) CAIRN, WHICH NOW HAS A 58/58 PARTNERSHIP WITH SHELL ON THE REST OF BLOCKS 15/16 (CAIRN REMAINS THE OPERATOR), SUFFERED A SETBACK EARLIER IN THE SUMMER WHEN A RUMORED LARGE GAS FIND OFFSHORE, MAMED HALDA, WAS DRY. ITS STOCK PRICE PLUNGED; SHORTLY THEREAFTER: SHELL INCREASED ITS OWNERSHIP TO 58 PERCENT. CAIRN, SHELL AND UNOCAL, FORMERLY BITTER RIVALS FOR BLOCK 18 IN THE SECOND BID ROUND (BELOW), RECENTLY REACHED AN UNDERSTANDING WHEREBY UNOCAL WILL NO LONGER CONTEST BLOCK 18 AND SHELL WILL NOT SEEK TO DERAIL OR UNDERCUT UNOCAL ON ITS PROPOSED WESTERN REGION INTEGRATED PROJECT (WRIP: BELOW).

OKLAND/UMC

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9. (SBU) THE TWO OTHER U.S. COMPANIES WITH EXISTING PSC'S, OKLAND OIL OF OKLAHOMA (BLOCKS 17 AND 18), AND UNITED MERIDIAN INTERNATIONAL (BLOCK 22), WHICH EARLIER IN THE YEAR MERGED WITH OCEAN ENERGY (U.S.). HOPE TO DRILL THEIR FIRST EXPLORATORY WELLS IN 1999, AFTER HAVING PERFORMED SEISMIC WORK THIS YEAR. OKLAND HAS AN AGREEMENT TO SELL APPROXIMATELY 75 PERCENT OF ITS INTEREST IN ITS TWO BLOCKS TO TULEOW OF IRELAND. THE DEAL WILL NEED THE APPROVAL OF THE BDG, HOWEVER, AND MAY NOT BE AUTOMATIC: GIVEN TULLOW'S INVOLVEMENT IN THE SECOND BID ROUND (BELOW). UMC: MEANWHILE: WAS SLOVED TO SOME DEGREE BY OWNERSHIP CONCERNS: NOW RESOLVED: BY LOGISTICAL DIFFICULTIES OF SEISMIC WORK IN THE DIFFICULT TERRAIN OF THE CHITTAGONG HILL TRACTS, AND BY A TEMPORARY POLITICAL POWER VACUUM CREATED AT THE END OF A TRIBAL INSURGENCY IN THE AREA. BOTH COMPANIES UNCLAS SECTION 84 OF 88 DHAKA 883481

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HAVE PURPOSELY MAINTAINED A LOW PROFILE AND TO DATE HAVE MOSTLY AVOIDED PROBLEMS WITH PETROBANGLA: THE STATE-OWNED OIL AND GAS COMPANY. OF COURSE, NEITHER COMPANY HAS YET TO SPEND SIGNIFICANT AMOUNTS OF MONEY. THE COMPANIES BELIEVE THEIR BLOCKS CONTAIN VERY GOOD POSSIBILITIES FOR SIGNIFICANT GAS DISCOVERIES; UNITED MERIDIAN BELIEVES BLOCK 22 COULD ALSO YIELD SOME OIL.

SECOND BID ROUND: PROMISES, PROMISES -----

18. (SBU) ALTHOUGH THE BDG ANNOUNCED IN JULY SOME OF THE WINNERS OF BANGLADESH'S SECOND BID ROUND FOR THE. EXPLORATION RIGHTS TO REMAINING BLOCKS. THE GOVERNMENT HAS YET TO INVITE THE WINNERS TO MEGOTIATE PSC'S. ALTHOUGH THE BDG HAS FORMED A NEW NEGOTIATING COMMITTEE. THE BDG APPEARS OVERLY CONFIDENT IT CAN NEGOTIATE NEW PSC'S IN A HURRY. WHILE THE ENERGY SECRETARY SAID NEGOTIATIONS FOR ALL FIVE PSCS SHOULD BE

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PAGE 84 OF 87 MID=1998328Ø1117 888492 "DONE IN A DAY," INDUSTRY INSIDERS SAY THE MODEL PSC HAS SERIOUS FLAWS WHICH PRECLUDE A QUICK NEGOTIATION. THE BDG SEEMINGLY HAS NOT YET INTERNALLY DECIDED WHAT THE PSCS WILL INCLUDE. A FURTHER COMPLICATION IS THAT SOME OF THE SELECTED COMPANIES HAVE HAD PROBLEMS SINCE THE AWARDS WERE ANNOUNCED. FOR EXAMPLE, TRITON, WHICH WAS TO OPERATE IN BLOCK 7 WITH UNOCAL AS A PARTNER, HAS TO SELL OFF ITS ASSETS, WHICH UNOCAL WILL LIKELY PURCHASE; TINY PANGAEA HAD ITS PARTNERSHIP WITH OMV OF AUSTRIA FALL APART WHEN THE AUSTRIAN COMPANY PULLED OUT. OFFSETTING THOSE PROBLEMS WAS THE BDG'S ANNOUNCEMENT THAT IT HAD OVERCOME SOME CONTENTIOUS ISSUES AND WAS ABLE TO AWARD OFFSHORE BLOCKS 19 AND 28 TO MAERSK OF DENMARK.

BIG BLOCKS STILL UNDECIDED

11. (SBU) BLOCKS 9, 18 AND 11, THOSE MOST SOUGHT AFTER IN THE SECOND BID ROUND (BECAUSE THEY ARE CLOSEST TO MARKET AND HAVE MORE KNOWN GAS POSSIBILITIES): ARE STILL UNDECIDED. DESPITE AN UNDERSTANDING AMONG SHELL. CAIRN ENERGY AND UNOCAL, WHEREBY UNOCAL WOULD TACITLY CEDE BLOCK 10 TO SHELL/CAIRN, NO OFFICIAL APPROVAL OR AWARD HAS TAKEN PLACE. BLOCKS 9 AND 11 ARE STILL GUMMED UP BY THE BDG'S IMABILITY TO EITHER AWARD THE BLOCKS TO THE TOP BIDDER, TINY TULLOW OF IRELAND, OR INDUCE TULLOW TO ACCEPT THE TERMS PROPOSED BY CHEVRON/TEXACO IN BLOCK 9. THE BDG STILL HOLDS OUT HOPE THAT MOBIL AND PETRONAS, PARTNERS IN A BID ON BLOCK 11. WILL AGREE TO PARTNER WITH TULLOW, SOMETHING MOBIL APPEARS UNWILLING TO DO. ONE PROBLEM HOLDING BACK PROGRESS IS THE BDG'S INABILITY TO DATE TO INVITE COMPANIES FORMALLY TO NEGOTIATE; WHILE THE BDG HAS SENT OUT SEVERAL INFORMAL "FEELERS" TO INDUSTRY, IT HAS NOT COMMUNICATED ANYTHING OFFICIALLY SINCE LATE 1997 REGARDING THESE UNDECIDED BLOCKS. SPECULATION OVER WHY THE BDG IS UNABLE TO CALL COMPANIES RANGES FROM POLITICAL INVOLVEMENT BY SPECIAL INTERESTS, ALLEGATIONS OF CORRUPTION, OR THE PM'S DESIRE TO ACCOMMODATE AS MANY COMPANIES AS POSSIBLE. WHATEVER THE REASON OR REASONS FOR CONTINUED BDG INACTION, INTEREST BY INTERNATIONAL OIL COMPANIES (IOC) APPEARS TO BE WANING AS WORLD OIL PRICES TUMBLE.

THE PROBLEM WITH GAS EXPORTS TO INDIA

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LONDON FOR SUTPHEN
DUBLIN FOR ENERGY OFFICER
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12. (SBU) THE INTERNATIONAL OIL COMPANIES WANT ACCESS TO INDIA BECAUSE THE EXISTING LARGE MARKET THERE GIVES THEM A WAY TO TURN THE GAS INTO HARD CURRENCY RELATIVELY QUICKLY. BANGLADESH, HOWEVER, IS RELUCTANT TO SELL ITS VITAL NATURAL RESOURCE TO THE INDIANS, ESPECIALLY SINCE IT DOES NOT KNOW HOW MUCH GAS IT HAS. AND THEREFORE DOES NOT KNOW HOW MUCH IT CAN SELL. THE BDG INSTEAD HOPES IOCS WILL HELP DEVELOP ITS DOMESTIC GAS MARKET, MAINLY POWER PLANTS AND FERTILIZER FACTORIES. WHILE FINANCE MINISTER KIBRIA SAYS THE BDG HAS THE WHEREWITHAL TO PAY FOR THE GAS COMING FROM OXY AND CAIRN AND COMPANY, AND THE ABILITY TO GENERATE MORE EXPORTS TO OFFSET ITS FOREIGN EXCHANGE OBLIGATIONS TO THE IOCS, HE ADMITS THAT THE GOVERNMENT WOULD NOT BE ABLE TO ABSORB THE COST OF ANY ADDITIONAL GAS PURCHASES FROM THE SECOND BID ROUND. WHILE PRIVATELY THERE HAS BEEN SOME DISCUSSION OF THE BDG'S WILLINGNESS TO HAVE THE FOREIGN COMPANIES SELL GAS DIRECTLY TO INDIA, PAYING THE BDG "COLD CASH" FOR ITS SHARE FIRST, THIS VIEW HAS NOT BEEN WIDELY EMBRACED WITHIN THE 80G. HOWEVER, THE GREATER PROBLEM WITH GAS EXPORTS TO INDIA IS THE DESTINATION, NOT CONCERNS OVER QUANTITIES OF GAS AVAILABLE. BANGLADESH'S CHECKERED RELATIONS WITH INDIA MAKE GAS EXPORTS THERE A SIGNIFICANT POLITICAL LIABILITY, ESPECIALLY FOR THE AVAMI LEAGUE GOVERNMENT WHICH MUST CONTEND WITH ITS "PRO-INDIA" REPUTATION.

TDA GAS STUDY

13. (SBU) THE BDG HAS SELECTED A CONSULTANT FOR THE USD 488,888 STUDY, FINANCED ENTIRELY BY THE U.S. TRADE AND DEVELOPMENT AGENCY, AND DESIGNED TO SEE HOW THE GAS CAN BE USED DOMESTICALLY AND INTERNATIONALLY TO CREATE WEALTH. ASSUMING ROUTINE APPROVALS ARE GIVEN BY THE MINISTRY OF ENERGY AND TDA, AND THAT THE CONSULTANT APPROVES THE CONTRACT, WORK COULD BEGIN SOMETIME IN DECEMBER. THE STUDY IS EXPECTED TO TAKE 4 TO 5 MONTHS TO COMPLETE.

THE BDG'S OWN PROBLEMS WITH GAS: FALLING PRODUCTION

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14. (SBU) COMPLICATING THE GAS PICTURE IS THE REALITY.
THAT THE BDG IS FACING FALLING PRODUCTION FROM ITS OWN
BAKHRABAD GAS FIELDS, DUE TO TECHNICAL PROBLEMS. WITH
LITTLE OR NO POSSIBILITY TO INCREASE PRODUCTION FROM
OTHER FIELDS OF ITS OWN (AT LEAST IN THE SHORT TERM,
ESPECIALLY GIVEN THE BUDGET CONSTRAINTS WHICH LED THE
BDG TO OPEN UP THE SECTOR TO INDUSTRY IN THE FIRST
PLACE). THE BDG WILL BE FORCED TO TURN TO GAS FROM THE
10CS. THAT PRESENTS TWO PROBLEMS FOR THE GOVERNMENT:
THE 10C GAS IS MORE EXPENSIVE (AT LEAST ON PAPER,
BECAUSE THE BDG DOES NOT FULLY REFLECT ALL ITS COSTS,
SUCH AS DEPRECIATION, IN ITS FIGURES); IT ALSO WILL
COST THE COUNTRY FOREIGN CURRENCY.

15. (SBU) THE GAS PROBLEM HIGHLIGHTS THE DILEMMA FACING THE BDG -- IT DOESN'T HAVE THE INFRASTRUCTURE TO EXPLOIT ITS RESOURCES ON ITS OWN, YET ITS INTERNAL PRICING AND COST STRUCTURES ARE SUCH THAT IT CANNOT EASILY AFFORD TO PAY FOREIGN COMPANIES FOR THEIR PRODUCTION. UNTIL IT FIGURES OUT HOW TO MAKE NEEDED PRICING AND DISTRIBUTION CHANGES (POWER DISTRIBUTION LOSSES--THEFT--ARE CLOSE TO 35 PERCENT, FOR EXAMPLE), BANGLADESH WILL NOT BENEFIT FULLY FROM ITS GAS AND POWER. IT NOW SELLS GAS AND POWER AT SUBSIDIZED UNCLAS SECTION 86 OF 88 DHAKA 883481

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PRICES, BUT PAYS MARKET PRICES IN DOLLARS TO IOCS ONOTE: THE BDG WILL RAISE DOMESTIC GAS PRICES BY 15 PERCENT ON DECEMBER 1). FURTHER CONFUSING THE MATTER IS AN ARGUMENT BEING PUT FORTH BY ENRON (WHICH WANTS TO USE CHEAP GAS TO SELL FERTILIZER TO INDIA) THAT THE BDG SHOULD KEEP ITS DOMESTIC GAS PRICE AS LOW AS POSSIBLE TO BUILD AN INDUSTRIAL BASE.

REGIONAL PROJECTS

16. (SBU) UNOCAL'S WESTERN REGION INTEGRATED PROJECT (WRIP) HAS BEEN IN THE WORKS FOR NEARLY TWO YEARS. THE WRIP WOULD DEVELOP A "STRANDED" GAS FIELD IN THE WEST, BUILD A PIPELINE FURTHER WEST TO KHULNA: AND HAVE SEVERAL HUNDRED MEGAWATTS (MW) OF POWER FROM SEVERAL PLANTS THE COMPANY WOULD ERECT. THE UNSOLICITED NATURE OF THE PROPOSAL, HOWEVER, HAS CAUSED INDIGESTION FOR THE BDG. UNOCAL NEEDS BDG APPROVAL OF THE TENDER DOCUMENTS BY THE END OF 1998 IF THE PROJECT IS TO BE COMPLETED BY THE END OF 2000 (NATIONAL ELECTIONS ARE DUE BY MID-2001, BUT THE PRIME MINISTER HAS SAID SHE WILL ADVANCE THEM TO LATE 2000). NOW THAT UNOCAL AND SHELL HAVE REACHED AN UNDERSTANDING ON BLOCK 18 AND THE WRIP (UNOCAL WILL DROP ITS CHASE FOR 18, WHILE SHELL WILL AGREE NOT TO UNDERBID UNOCAL ON THE WRIP), UNOCAL HOPES THE BDG WILL FINALLY BE ABLE TO MOVE RAPIDLY TO GET THE PROJECT TENDERED. THE TENDER WILL BE A "SWISS CHALLENGE," WHEREBY UNOCAL WOULD HAVE THE RIGHT, AS PROJECT SPONSOR, TO MATCH ANY LOWER BIDS. COMPANY OFFICIALS HAVE TOLD ECONOFF THEY NO LONGER ARE PUSHING FOR A DIRECT AWARD OF THE PROJECT, GIVEN TRANSPARENCY CONCERNS OF THE BDG.

ENRON AND THE NORTH BENGAL PROJECT

17. (SBU) ENRON INTERNATIONAL PROPOSED A NORTH BENGAL REGIONAL PROJECT IN THE FALL OF 1998. IT WOULD BRING GAS FROM THE EAST ACROSS THE JAMUNA BRIDGE AND BUILD PIPELINES TO THE NORTH TO FEED A FERTILIZER-FOR-EXPORT PROJECT (WHICH ENRON WOULD DEVELOP) AND TO THE SOUTH TO FUEL PLANNED POWER PLANTS. IT COULD JOIN UNDCAL'S PROPOSED WRIP PIPELINE AT KHULNA. ENROW WILL BE MAKING PRESENTATIONS IN DECEMBER.

POWER

AES

18. (SBU) AES IS WORKING TO ARRANGE FINANCING FOR ITS 368 MM HARIPUR COMBINED CYCLE GAS PLANT, WHICH IT HAS COMMITTED TO DELIVER 38 MONTHS FROM LAST SEPTEMBER'S CONTRACT SIGNING (CONTINGENT UPON FINANCING). IT CONTINUES TO NEGOTIATE A POWER PURCHASE AGREEMENT (PPA) WITH THE GOVERNMENT'S POWER DEVELOPMENT BOARD (PDB) ON THE 458 MM MEGHNAGHAT PROJECT, ALSO COMBINED CYCLE. WHILE BOTH SIDES PLEDGED TO COMPLETE THE MEGHNAGHAT NEGOTIATIONS BY MID-OCTOBER, EITHER PDB FOOTDRAGGING (ACCORDING TO AES) OR AES TACTICS (ACCORDING TO THE BDG) HAS UNTIL NOW KEPT PROGRESS VERY SLOW. OF

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PAGE 86 OF 87 MID=199832881117 888492 INTEREST IS THE NOW-PUBLIC NEWS THAT THE PDB HAS ASKED THE MINISTRY OF ENERGY TO APPROVE THE AWARD OF MEGHNAGHAT'S PHASE TWO 458 MW PROJECT DIRECTLY TO -150 MARUBENI OF JAPAN. MARUBENI WAS THE SECOND LOWEST UNCLAS SECTION 87 OF 88 DHAKA 883481

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BIDDER FOR MEGHNAGHAT; IT HAS REPORTEDLY OFFERED TO MATCH THE TERMS AND PRICE OF AES'S CONTRACT.

#### OTHER POWER PROJECTS ------

- (SBU) TWO BARGE-MOUNTED POWER PLANT PROJECTS ARE ALSO IN THE WORKS, BOTH INVOLVING U.S. COMPANIES. ONE, INVOLVING OGDEN ENERGY, EL PASO, AND THE FINNISH COMPANY WARTSILA, HAS APPROACHED THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) FOR FINANCING AND POLITICAL RISK INSURANCE WORTH NEARLY USD 388 MILLION. AN OPIC DUE DILIGENCE TEAM VISITED BANGLADESH IN EARLY MOVEMBER, AND A DECISION ON OPIC'S INVOLVEMENT IS EXPECTED SOON. SMITH COGENERATION HAS FOUND A FINANCIAL BACKER IN THERMO-ECOTEK OF MASSACHUSETTS, AND HOPES IT CAN GET FINAL BDG CONCESSIONS AND APPROVALS TO MAKE ITS 118 HW PROJECT HAPPEN BY NEXT SUMMER. INDICATIONS ARE THAT SMITH'S BARGE WILL BE ACCEPTED BY THE BDG IF A TIGHT SCHEDULE CAN BE MET, AND DAMAGES FOR LATE DELIVERY ARE PAID.
- 28. (SBU) MPI (BASED IN THE U.K. AND FORMERLY KNOWN AS MIDLANDS), OWNED BY CINERGY (U.S.), RECEIVED IN OCTOBER 1998 A LETTER OF INTENT (LOI) FROM THE BDG TO NEGOTIATE A CONTRACT TO BUILD OWN AND OPERATE (BOO) A 188 MW GAS-FIRED PLANT IN BAGHABARI. NEGOTIATIONS ARE SCHEDULED TO BEGIN NOVEMBER 24.
- 21. (SBU) ENRON INTERNATIONAL HAS PLACED AN UNSOLICITED OFFER BEFORE THE POWER DEVELOPMENT BOARD TO BRING IN 168 MW OF EMERGENCY POWER FOR 3 TO 5 YEARS.

THE COMPANY IS PUSHING HARD FOR A QUICK DECISION ON THE DEAL, WHICH WOULD DELIVER 88 MW BY APRIL: WHEN PEAK SEASON BEGINS. INDICATIONS FROM THE PDB ARE THAT ENRON WILL NEED TO LOWER ITS PRICE TO HAVE ANY CHANCE OF

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ACCEPTANCE. THE UNSOLICITED NATURE OF THE PROPOSAL MAKES IT MORE DIFFICULT FOR THE BDG TO ACCEPT AS WELL; THE ENERGY SECRETARY IS NOT CURRENTLY A SUPPORTER DUE

IN PART TO TRANSPARENCY CONCERNS.

22. (SBU) THE GOVERNMENT'S RURAL ELECTRICIFICATION BOARD (REB) WILL SELECT A COMPANY IN MID-NOVEMBER TO BUILD THREE 18 MW POWER PLANTS. SEVERAL U.S. COMPANIES ARE ON THE SHORT LIST. THE REB, DESIGNED AFTER THE U.S. RURAL ELECTRIFICATION SYSTEM, WILL SELL THE POWER TO ITS CUSTOMERS. THE REB HAS MUCH HIGHER PAYMENTS RECEIVED TO GENERATION PRODUCED RATIOS THAN DO THE OTHER BDG POWER COMPANIES.

#### BOTH SIDES NEED TO TALK

23. (SBU) IT HAS BECOME OBVIOUS TO POST THAT GOVERNMENT AND INDUSTRY PLAYERS WEED TO COMMUNICATE MORE WITH EACH OTHER. COMPANIES REMAIN IN THE DARK AS TO HOW DECISIONS ARE MADE WITHIN THE BUREAUCRACY, AND AS A RESULT THEIR FRUSTRATION LEVEL IS HIGH, EVEN THOUGH THE COMPANIES ACKNOWLEDGE THAT THE BANGLADESHI BUREAUCRACY MOVES FASTER THAN INDIA'S. AT THE SAME TIME: SOME OF THE COMPANIES HERE RELY TOO MUCH ON THEIR LOCAL PARTMERS, AND AS A RESULT DO NOT HAVE THE "FACE TIME" WITH BUREAUCRATS MEEDED TO BUILD MORE UNDERSTANDING. ADD TO THE MIX SOME MISSED DEADLINES FROM TWO OF THE BARGE POWER DEALS, OXY'S BLOWOUT, SANGU'S PERCEIVED COST OVERRUNS, PLUS CONCERNS ABOUT UNCLAS SECTION 88 OF 88 DHAKA 883481

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ABILITY TO PAY AS WELL AS THE POLITICAL DIMENSIONS OF

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EB8492 24/12272 MID=199832881117 PAGE 87 OF 87 EXPORTS TO INDIA, AND THE BDG'S APPREHENSIONS AND DELAYS ARE AT LEAST UNDERSTANDABLE, IF NOT ENTIRELY EXCUSABLE. THE POTENTIAL TECHNICAL COOPERATION FROM THE USG AND THE ENERGY ROUNDTABLE SLATED FOR NEXT MONTH IN WASHINGTON SHOULD HELP. THE BDG'S ENERGY SECRETARY WOULD LIKE TO INCREASE COMMUNICATION BETWEEN HIS GOVERNMENT AND THE OPERATORS, AND HAS SCHEDULED MEETINGS HERE, WHICH IS A GOOD SIGN. GIVEN ALL THE INVESTMENT AT STAKE, EASILY BETWEEN USD 1.5 TO 2.8 BILLION JUST FOR U.S. COMPANIES ALONE: BOTH SIDES HAVE PLENTY OF REASONS TO WORK THINGS OUT. **HOLZMAN** BT

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#### CONFIDENTIAL

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#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE Ø1 OF Ø3 CAVEAT (S) =

HANDLE VIA

CRC = EAS8

MID=1998153Ø1117

ACTION = [TRS] CALL (3), G1 (1), ICM (1), ICS (1), IDB (1), IDC (1), INA (1)

971814

Ø2/1431Z

MID=199815381117

SUMMARY

B71814 B2/14312

RR RUEATRS DE RUEHKA #1597/Ø1 1531141 ZNY CCCCC ZZH R 0211417 JUN 98 FM AMEMBASSY DHAKA TO RUCPDOC/USDOC WASHDC 8367 RUEHC/SECSTATE WASHDC #985 INFO RUEHAH/AMEMBASSY ASHGABAT 0091 RUEHDB/AMEMBASSY DUSHANBE 8877 RUEHNE/AMEMBASSY NEW DELHI #488 RUEHDL/AMEMBASSY DUBLIN 0031 RUEHIL/AMEMBASSY ISLAMABAD 5264 RUEHLO/AMEMBASSY LONDON 8141 RUEHGP/AMEMBASSY SINGAPORE 1437 RUEATRS/DEPT OF TREASURY WASHINGTON DC RUSBAY/AMCONSUL MUMBAI 8626 RUEHLM/AMEMBASSY COLOMBO 3619 RHEBAAA/DEPT OF ENERGY WASHINGTON DC RUEHAD/AMEMBASSY ABU DHABI 0519 RUEHKT/AMEMBASSY KATHMANDU 3567 RUEHML/AMEMBASSY MANILA 8718 RUEHNT/AMEMBASSY TASHKENT 9098 BT

ITF (1) . ITI (1) . OIMF (1) . QC (1) . SEN (-)

FOR SA/PAB, EB/ESC, AND INR/SA/SOA
STATE PASS EXIMBANK, OPIC AND TDA
USDOC FOR 4538 ITA/ANESA/OSA, 6888 ADVOCACY CENTER
DEPT OF ENERGY FOR ROBERT PRICE
TREASURY FOR OASIA
LONDON FOR TUELLER
DUBLIN FOR ENERGY OFFICER
MANILA FOR USED ADB AND SCO BARNES

E.O. 12958: DECL: 86/82/83 TAGS: EPET, ENRG, ECON, BG SUBJECT: ENERGY SECTOR OVERVIEW

CONFIDENTIAL DHAKA 681597

REF: A) 97 DHAKA 2372

- (U) CLASSIFIED BY CHARGE D'AFFAIRES THEODORE A. MIST. REASON: 1.5 (B)
- (U) THIS MATERIAL SHOULD BE CONSIDERED BUSINESS CONFIDENTIAL AND SHOULD NOT BE SHARED WITH PRIVATE COMPANIES.

3. (C) BANGLADESH HAS POTENTIALLY LARGE GAS RESERVES

(38 TO 88 TRILLION C UBIC FEET), AND HAS INVITED

INTERNATIONAL OIL COMPANIES TO HELP DEVELOP THOSE
RESOURCES. THE COUNTRY ALSO HAS A POWER SHORTAGE OF
SEVERAL HUNDRED MEGAMATTS AND HAS FLOATED TENDERS
INVITING PRIVATE POWER COMPANIES TO DELIVER GAS-BASED
ELECTRICITY UNDER BUILD-OWN-OPERATE (BOO) SCHEMES, MANY
U.S. COMPANIES ARE VYING FOR NEW GAS EXPLORATION BLOCKS
OR POWER PROJECTS, WHILE THREE U.S. COMPANIES ARE
CURRENTLY EXPLORING FOR MATURAL GAS UNDER EXISTING
CONTRACTS. [(b)(1)]

THE U.S. TRADE AND DEVELOPMENT AGENCY HAS OFFERED TO FUND A STRATEGIC GAS STUDY TO ASSIST THE BDG IN DETERMINING HOW BEST TO DEVELOP ITS NATURAL GAS RESOURCES. END SUMMARY.

ENERGY SECTOR OVERVIEW

4. (C) BANGLADESH COULD POSSESS SIGNIFICANT NATURAL GAS RESERVES, WHICH HAVE ATTRACTED THE ATTENTION OF NUMEROUS INTERNATIONAL OIL COMPANIES (IOCS). WHILE PROVEN RESERVES ARE ONLY 18 TRILLION C UBIC FEET (TCF), MOST IOCS BELIEVE BANGLADESH HAS BETWEEN 38 AND 88 TCF. AT CURRENT CONSUMPTION RATES, SUPPLY IS ESTIMATED TO BE SUFFICIENT FOR 38 YEARS. WHILE THE SMALL AND RELATIVELY UNDEVELOPED DOMESTIC MARKET HAS MUCH ROOM TO GROW, IOCS ARE PUSHING FOR BANGLADESH TO CONSIDER AND APPROVE GAS EXPORTS TO INDIA OF ANY DOMESTIC SURPLUS. [(b)(1)]

GAS SECTOR

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#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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MID=1998153Ø1117

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MID=1998153Ø1117 CONTEMPLATING DOING BUSINESS IN BANGLADESH. Ø71814

82/14317

5. IC) CURRENTLY, EIGHT OF THE COUNTRY'S 23 GAS BLOCKS - ARE UNDER CONTRACT: BLOCKS 12, 13 AND 14 TO OCCIDENTAL PETROLEUM (WHICH HAS UNOCAL AS A 58/58 PARTNER; OXY IS CURRENTLY THE OPERATOR); BLOCKS 15 AND 16 TO A CONSORTIUM OF CAIRN ENERGY (UK) AND ROYAL DUTCH SHELL;

BLOCKS 17 AND 18 TO OKLAND OIL, A SMALL U.S. EXPLORATION COMPANY; AND BLOCK 22 TO UNITED MERIDIAN OF THE U.S. OKLAND AND UNITED MERIDIAN ARE IN THE EARLY STAGES OF THEIR WORK PROGRAMS AND ARE PRIMARILY PERFORMING SEISMIC WORK TO HELP THEM SELECT WHERE TO DRILL FIRST, WHICH THEY HOPE WILL BE SOMETIME IN 1999. CAIRN, SHELL AND U.S. COMPANY HALLIBURTON/BROWN AND ROOT HAVE ENTERED INTO AN AGREEMENT TO DEVELOP AN OFFSHORE GAS FIELD IN THE BAY OF BENGAL. DELIVERY OF GAS FROM THAT FIELD, CALLED SANGU, COULD TAKE PLACE IN MID-JUNE 1998. THE THREE COMPANIES HAVE INVESTED APPROXIMATELY \$248 MILLION IN SANGU. WHILE CONSTRUCTION OF THE WELL, PIPELINE, AND PROCESSING PLANT ONSHORE HAS GONE WELL, THE COMPANIES HAVE BEEN FRUSTRATED [(b)(1)]

6. (C) OCCIDENTAL IS HAVING PROBLEMS WITH THE BDG AS WELL, LARGELY DUE TO A GAS BLOWOUT IN JUNE 1997, AND A GAS LEAK IN APRIL 1998 (AT SEPARATE LOCATIONS IN THE REGION OF SYLHET IN THE NORTHEAST OF BANGLADESH). THE BLOWOUT AND ITS REPERCUSSIONS KEPT THE COMPANY FROM MEETING SOME CONTRACTUAL OBLIGATIONS UNDER ITS WORK PROGRAM, AND ITS APPLICATION FOR AN EXTENSION OF ITS CONTRACT HAS BEEN PENDING SINCE THE FIRST PHASE EXPIRED IN JANUARY 1998. OXY'S MOES WERE COMPOUNDED IN MAY 1998 WHEN A FORMER CONTRACT EMPLOYEE MADE REMARKS IMPLYING THAT A GOOD MEASURE OF OXY'S PROBLEMS EXISTED BECAUSE THE COMPANY FAILED TO PAY BRIBES. THE AMBASSADOR AND OTHER USG OFFICIALS HAVE SUPPORTED OCCIDENTAL'S BID FOR AN EXTENSION, 1(b)(1)

ANY CANCELLATION
WOULD LIKELY BE FOUGHT IN THE COURTS BY OXY, AND WOULD
HAVE AN ADVERSE AFFECT ON OTHER FOC'S DOING BUSINESS OR

POWER SECTOR

- 7. (C) BANGLADESH DOES NOT GENERATE SUFFICIENT ELECTRICITY TO MEET ITS MEEDS, WITH AM ESTIMATED SUPPLY-DEMAND GAP OF SEVERAL HUNDRED MEGAWATTS UMVI. INSTALLED CAPACITY IS 2988 MM. BUT ACTUAL OUTPUT IS APPROXIMATELY 1888 MW. DEMAND IS ROUTINELY AT LEAST 2288 TO 2488 MM. WITH LOADSHEDDING HINDERING INDUSTRY, AGRICULTURE AND COMMERCE. ONLY ABOUT 15 PERCENT OF THE COUNTRY'S 127 MILLION PEOPLE HAVE ACCESS TO ELECTRICITY. THE COUNTRY'S POWER DEVELOPMENT BOARD (PDB) IS CURRENTLY RESPONSIBLE FOR ALL GENERATION AND MOST OF ITS TRANSMISSION AND DISTRIBUTION. SERVICE AND DELIVERY ARE POOR, HOWEVER, AND NON-TECHNICAL SYSTEM LOSS (I.E., THEFT) IS AROUND 35 PERCENT.
- 8. (C) THE SECTOR'S PROBLEMS LED THE BDG TO OPEN THE POWER SECTOR TO INDEPENDENT POWER PRODUCERS (IPPS) IN RECENT YEARS. THE BDG NOW HAS SEVERAL OUTSTANDING TENDERS FOR GAS-POWERED PLANTS WHICH, WHEN COMPLETED, WILL PRODUCE ABOUT 1388 MM. AES (US) IS CURRENTLY

NEGOTIATING WITH THE BDG ON A 360 MW PLANT TO BE BUILT, OWNED AND OPERATED BY AES, AND IS ALSO AWAITING NOTIFICATION TO NEGOTIATE WITH THE 80G FOR A 450 MW PLANT. THE BDG HAS ALSO SIGNED CONTRACTS WITH FOUR COMPANIES TO BUY BARGE-MOUNTED POWER FOR FIFTEEN YEARS; TWO OF THE COMPANIES, SMITH COGENERATION AND NEW ENGLAND POWER: ARE FROM THE U.S., AND A THIRD, WARTSILA OF FINLAND, IS IN EQUITY DISCUSSIONS WITH COASTAL POWER OF HOUSTON. MIDLANDS W.K. BUT OWNED BY CINERGY OF THE U.S.) WAS THE LOW BIDDER ON A 188 MW GAS PLANT IN WESTERN BANGLADESH, BUT HAS NOT YET BEEN INVITED TO NEGOTIATE. UNOCAL HAS PROPOSED TO BUILD ABOUT 368 MW AS PART OF ITS WESTERN REGION INTEGRATED PROJECT, WHICH WOULD DEVELOP THE COUNTRY'S ONLY GAS FIELD IN THE WEST AND BUILD PIPELINES TO MOVE GAS WESTWARD TO FUEL SEVERAL SMALL AND MEDIUM-SIZED PLANTS. UNOCAL HAS NOT YET BEEN AWARDED A CONTRACT TO CARRY OUT ITS PROJECT, HOWEVER, AND THE BDG IS DELIBERATING ON HOW TO HANDLE THIS UNSOLICITED PROJECT, WHICH SHELL AND OTHERS HAVE OPPOSED.

HOW TO PAY FOR THE GAS

9. (C) GAS COMPANIES SHARE LOCS CONCERNS ABOUT THE BDG'S ABILITY TO PAY THEM FOR THEIR POWER; THE CONTRACTS BEING NEGOTIATED CALL FOR IPP'S TO BE PAID IN DOLLARS. THE BDG HAS REALIZED IT COULD BE IN SERIOUS FOREIGN EXCHANGE DIFFICULTIES IF IT PAYS FOR ELECTRICITY IN

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#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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DOLLARS BUT RECEIVES LOCAL CURRENCY FROM DOMESTIC

CUSTOMERS, UNLESS CUSTOMERS ARE ABLE TO USE THEIR

ELECTRICITY TO GENERATE EXPORTS. WHILE THE COUNTRY HAS A GROWING GARMENT EXPORT SECTOR, ITS ABILITY TO PRODUCE

MORE FOREIGN EXCHANGE MITH MORE ELECTRICITY IS UNCERTAIN

ITHE SECTOR IS HARD HIT BY LOADSHEDDING, ACCORDING TO

PRESS REPORTS). BANGLADESH'S PAYMENT DILEMMA IS

COMPOUNDED BY ITS SYSTEM LOSS, WHICH MEANS THE PDB

RECEIVES ONLY 68 TO 65 PERCENT OF PAYMENTS FOR POWER

PRODUCED, AND BY EXISTING PRICE STRUCTURES WHICH FAIL TO

COVER TRUE COSTS OF PRODUCTION.

BUREAUCRATIC OVERLOAD

[(b)(1)]

A L C MID=1998153#1117

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ACTIVITIES ARE VERY LIMITED, U.S. COMPANIES MOBIL, EXXON AND CALTEX ARE TRYING TO INCREASE THEIR INVOLVEMENT IN LIQUID PETROLEUM GAS PROCESSING. U.S. ECONOMIC AND COMMERCIAL INTERESTS ARE OVERWHELMINGLY IN THE GAS AND ENERGY SECTORS RIGHT NOW. GIVEN FAVORABLE GOVERNMENT DECISIONS, THEY COULD LEAD THE WAY IN BANGLADESH TO FURTHER INDUSTRIALIZATION AND HIGHER ECONOMIC GROWTH.

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#### TDA STRATEGIC GAS STUDY

11. (C) THE U.S TRADE AND DEVELOPMENT AGENCY HAS OFFERED TO FUND A 3488,088 STRATEGIC GAS STUDY TO HELP BDG OFFICIALS BETTER UNDERSTAND THE DIFFERENT OPTIONS BEING PRESENTED TO THEM BY IOCS AND IPPS, WITH A VIEW TO MAXIMIZING BANGLADESH'S BENEFITS FROM ITS POTENTIAL NATURAL GAS RESOURCES. TERMS OF REFERENCE (TOR) WERE DRAFTED AND GIVEN TO THE BDG IN FEBRUARY 1998; THE BDG GAVE THE TOA ITS SUGGESTED CHANGES TO THE TOR ONLY ON MAY 31.

#### PROSPECTS FOR US. COMPANIES

 (C) U.S. COMPANIES ARE WELL-POSITIONED IN BOTH GAS AND POWER. THREE OF THE FOUR CURRENT EXPLORATION

COMPANIES WITH BLOCKS ARE U.S.-BASED, AND OCCIDENTAL'S BLOCKS (ASSUMING IT KEEPS THEM) ARE CONSIDERED BY MANY TO BE THE BEST IN THE COUNTRY. SEVERAL MAJOR U.S. COMPANIES, INCLUDING CHEVRON, TEXACO, UNOCAL, MOBIL, ENRON AND UTP HAVE BID ON BLOCKS FOR THE SECOND BID ROUND, AND WHILE NOT ALL MILL WIN, IT IS LIKELY THAT SOME MILL BE SUCCESSFUL. IN POWER, AES AND UNOCAL WILL LIKELY MAKE IT TO THE NEGOTIATING TABLE, AND THE POWER BARGES WILL PROBABLY END UP HAVING SOME U.S. EQUITY. U.S. OIL AND GAS SERVICE PROVIDERS WILL LIKELY END UP SERVICING THE EXPLORATION COMPANIES. WHILE DOWNSTREAM

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#### UNCLASSIFIED

#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

16/15342



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WELL AS THE DIESEL UNIT IN SABANA DE LA MAR. THESE
UNITS HAVE AN INSTALLED CAPACITY OF 573MW, WITH SOME
448MW BELIEVED TO BE FUNCTIONAL.

MID=199913788916 NO ONE WOULD NOTICE." [(b)(4)] 827268 16/15342

THE GAS TURBINES PURCHASED FROM SIEMENS AND GEC-ALTHROM PRIOR TO THE MAY 1998 ELECTIONS ARE INCLUDED IN THE ASSETS DISTRIBUTED TO THE TWO GENERATION COMPANIES AND CONTRIBUTE A SUBSTANTIAL PORTION OF THE VALUE OF THE TWO PACKAGES.

UNCLAS SECTION 82 OF 83 SANTO DOMINGO 882377

LA PAZ FOR AMBASSADOR HRINAK

SENSITIVE

DEPT PASS OPIC FOR M.PEREIRA AND M.MONHEIMER USDOC FOR 3134/USFCS/010/MH/RD USDOC FOR 4322/ITA/IEP/WH/OMCB/SIEGELMAN

E.O. 12958: N/A
TAGS: ENRG EINV PREL DR
SUBJECT: CDE GENERATION UNITS CAPITALIZED

## WHEN THEY GET IT

6. (SBU) NO DATE HAS BEEN SET FOR THE FORMAL HAND-OVER OF THE CDE GENERATION COMPANIES, ALTHOUGH THE WINNERS ANTICIPATE IT MILL TAKE PLACE IN TWO MONTHS. THE TWO CONSORTIA ARE THEN REQUIRED TO PUT AN ADDITIONAL 188 MW OM LINE WITHIN 12 MONTHS OF THE TURN OVER. CONSORTIA REPRESENTATIVES COMMENTED TO ECONOFF THAT IT MAY BE FASTER, CHEAPER AND MORE EFFICIENT TO SIMPLY SCRAP SOME OF THE EXISTING UNITS RATHER THAN TRY TO UPGRADE THEM.

#### WHITHER COE

7. (SBU) CDE, FOR THE TIME BEING, WILL RETAIN THE NATIONAL TRANSMISSION SYSTEM AND ITS HYDRO GENERATING UNITS. MUCH WORK REMAINS AREAD IN BREAKING DOWN ITS EXISTING STRUCTURE TO SPIN OFF THE FIVE CAPITALIZED COMPANIES. [(b)(4)]

## ENRON IN A PICKLE

9. QU) ENRON HAS HAD A PARTICULARLY INTERESTING ROLE IN THE RUN UP TO THE CAPITALIZATION. AS REPORTED REFTEL A, THE IPPS HAVE PUT IN LONG HOURS THIS MEEK IN NEGOTIATIONS WITH THE CREP AND CDE ON YET ANOTHER "FINAL" VERSION OF THE SO-CALLED DEFINITIVE MOU, WHICH WILL GUIDE THEIR RELATIONSHIP WITH THE NEW DISTRIBUTION COMPANIES. [(b)(4)]

REPRESENTATIVES REPORTED TO ECONOFF THAT THE NEGOTIATIONS FINALLY ENDED AT 1:38 AM ON MAY 13. TWO IPP'S SIGNED AT THAT TIME, WHILE THE REST DECLINED TO SIGN PENDING PERSONAL MEETINGS WITH CDE ADMINISTRATOR SEGURA.

[(b)(4)]

11. (SBU) AS NOTED ABOVE, THE LAST OF THE IPPS SIGNED THE DEFINITIVE MOU AT 5:38 PM, A HALF HOUR BEFORE THE CAPITALIZATION CEREMONY WAS TO START. [(b)(4)]

GIVEN THAT SMITH-ENRON WAS

ULTIMATELY NOT SUCCESSFUL IN FINALIZING LIS.

RATIFICATION AGREEMENT THIS WEEK, WHICH WILL, IN THE
WORDS OF ONE ENRON SOURCE, ENTAIL "LOTS OF FUTURE ARM
WRESTLING," ENRON'S ROLE IN THE SEABOARD CONSORTIUM WAS
HAWDLED VERY QUIETLY.

8. (SBU) CDE CURRENTLY HAS 8,500 EMPLOYEES OF WHOM ONE IPP SOURCE COMMENTS, "YOU COULD FIRE 3,000 TOMORROW AND

IINCI ASSIFIFD

## IMMEDIATE UNCLASSIFIED

## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE B1 OF B3

HID=199913788916

027268 16/15347 KID=199913788916

827268 16/15342

CAVEAT (S) =

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ACTION = (TRS)BOI (1), GI (1), IDC (1), IMB (1), INL (1), ITF (1), [TI (1) OIMF (1) . QC (1) . SEN (-) . UO (1) . XAA (1) . XL I (1)

CRC = A982

OO RUEATRS DE RUEHDG #2377/81 1371111 ZNR UUUUU ZZH 0 171111Z MAY 99 FM AMEMBASSY SANTO DOMINGO TO RUEHC/SECSTATE VASHDC IMMEDIATE 4868 INFO RUEHPU/AMEMBASSY PORT AU PRINCE 1586 RUEHLP/AMEMBASSY LA PAZ 8168

RUCPDOC/USDOC WASHDC

UNCLAS SECTION 01 OF 03 SANTO DOMINGO 802377

LA PAZ FOR AMBASSADOR HRINAK

SENSITIVE

DEPT PASS OPIC FOR M. PEREIRA AND M. MONKEIMER USDOC FOR 3134/USFCS/010/WH/RD USDOC FOR 4322/ITA/IEP/WH/OMCB/SIEGELMAN

E.O. 12958: N/A TAGS: ENRG EINV PREL DR SUBJECT: CDE GENERATION UNITS CAPITALIZED

REF: A. SANTO DOMINGO 2334, B. SANTO BOMINGO 1957

1. (U) SENSITIVE BUT UNCLASSIFIED. PROTECT ACCORDINGLY.

2. (U) SUMMARY: THE TWO GENERATION UNITS OF THE STATE POWER COMPANY: CORPORATION DOMINICANA DE ELECTRICIDAD (CDE), WERE CAPITALIZED ON MAY 13 FOR A TOTAL OF US\$322.2 HILLION. U.S. INDEPENDENT POWER PRODUCERS (IPPS) ALREADY REPRESENTED IN THE DOMINICAN REPUBLIC VOTED ON THE FUTURE PROSPECTS OF THE DOMINICAN ENERGY SECTOR: COASTAL POWER COMPANY, JOINING WITH CHILE'S GENER S.A. IN THE NEW CARIBBEAN INVESTMENT CONSORTIUM WILL TAKE OVER THE ITABO GENERATION COMPANY WHILE THE SEABOARD CORPORATION, FRONTING FOR ENROW INTERNATIONAL AMONGST OTHERS: WILL TAKE OVER THE HAINA GENERATION COMPANY. NO DATE HAS BEEN SET FOR THE FORMAL HAND-OVER OF THE COMPANIES. ALTHOUGH THE BIDDERS ANTICIPATE IT WILL TAKE PLACE IN TWO MONTHS. THE SUCCESSFUL CAPITALIZATION OF CDE IS A VERY REAL ACCOMPLISHMENT FOR PRESIDENT FERNANDEZ AND HIS ADMINISTRATION. END SUMMARY.

3. (U) THE SECOND STEP IN THE CAPITALIZATION OF CDE TOOK PLACE IN A TELEVISED MAY 13 CEREMONY. THERE WAS LITTLE DRAMA IN THE PROCEEDINGS AS IT WAS KNOWN IN ADVANCE THAT TWO BIDS HAD BEEN RECEIVED FOR THE TWO COMPANIES. THE REAL DRAMA OF THE DAY TOOK PLACE OFF STAGE WITH THE LAST OF THE IPPS RE-SIGNING THE DEFINITIVE HOU WITH THE COMISSION FOR THE REFORM OF PUBLIC ENTERPRISES (CREP) AND CDE A HALF HOUR BEFORE THE PUBLIC CEREMONY WAS TO BEGIN.

#### THE WINNERS ARE...

4. (U) THE NEW CARIBBEAN INVESTMENT CONSORTIUM, COMPRISED OF CHILE'S GENER S.A. AND THE U.S.-BASED COASTAL POWER COMPANY: SUBMITTED A SINGLE WINNING BID. OF US\$177,777,777 FOR GENERADORA ITABO, S.A. THE SEABOARD CORPORATION, FRONTING FOR A CONSORTIUM WHICH INCLUDES ENRON INTERNATIONAL AND THE COMMONWEALTH DEVELOPMENT CORPORATION AS WELL AS LOCAL INTERESTS, PLACED BIDS ON BOTH GENERATION COMPANIES BUT ACQUIRED GENERADORA HAINA, S.A. WITH A US\$144.5 HILLION BID. THE TOTAL BIDS WERE US\$65.5 MILLION OVER THE MINIMUM REFERENCE PRICES SET FOR THE GENERATION UNITS (SEABOARD'S BID ON HAINA WAS ONLY US\$1.3 MILLION OVER THE US\$143.1 MILLION REFERENCE PRICE).

#### WHAT THEY GET

5. (U) THE VINNING BIDDERS ACQUIRE 58 PERCENT OF THE SHARES AND MANAGEMENT CONTROL OF THE TWO NEW GENERATION COMPANIES IN EXCHANGE FOR THE INVESTMENT IN THESE COMPANIES OF THE PLEBGED US\$322.2 MILLION. CDE'S MON-HYDRO GENERATION ASSETS HAVE BEEN SPLIT BETWEEN THE TWO COMPANIES AS FOLLOWS:

GENERADORA HAINA, S.A.: RECEIVES THE FOLLOWING THERMAL GENERATION UNITS -- HAIMA 1, 2, 3, 4 AND 5; PUERTO PLATA 1 AND 2; BARAHONA AND SAN PEDRO DE MACGRIS. THIS COMPANY WILL ALSO RECEIVE THE GAS TURBINES OF HAINA-GAS, SAN PEDRO AND BARAHONA AS WELL AS THE DIESEL UNITS IN MANZANILLO AND PEDERNALES. THESE UNITS HAVE AN INSTALLED CAPACITY OF 663. 9MW BUT ONLY 241MW, OR 36 PERCENT, OF THAT CAPACITY IS NOW FUNCTIONAL.

GENERADORA ITABO, S.A.: RECEIVES THE FOLLOWING THERMAL GENERATION UNITS -- ITABO 1 AND 2; AND SANTO DOMINGO 5 AMD 8. IT WILL ALSO RECEIVE THE GAS TURBINES ITABO 1. 2 AMD 3; SAN PEDRO 4 AMD 5, AMD TIMBEQUE 1 AMD 2 AS

HNCI VCCIETED

#### UNCLASSIFIED

#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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COMMENT

UNCLAS SECTION 03 OF 03 SANTO DOMINGO 002377

LA PAZ FOR AMBASSADOR HRINAK

SENSITIVE

#2377 A9#2 NNNN

DEPT PASS OPIC FOR M.PEREIRA AND M.MONHEIMER USDOC FOR 3134/USFCS/010/MH/RD USDOC FOR 4322/ITA/IEP/WH/ONCB/SIEGELMAN

E.O. 12958: M/A
TAGS: ENRG EINV PREL DR
SUBJECT: CDE GENERATION UNITS CAPITALIZED

12. (SBU) THE CAPITALIZATION OF CDE SHOULD BE
CONSIDERED A REAL SUCCESS FOR PRESIDENT FERNANDEZ AND
HIS ADMINISTRATION. WE PLAN TO SEND OUR
CONGRATULATIONS TO HIM. ONE EBULLIENT DOMINICAN IPP

S EMPLOYEE CALLED ECONOFF THE MORNING AFTER THE
CAPITALIZATION TO ASK, "DO YOU REALIZE THAT WITHIN 1824 MONTHS, BLACKOUTS MAY BE A THING OF THE PAST?" THIS "
PRESUPPOSES THAT THE IPPS WILL FOLLOW THROUGH QUICKLY

WITH THEIR THUESTMENTS AND THAT CDE ITSELF INVESTS IN
SUB-STATIONS AND POWER LINES. THE CDE PROBLEM,
HOWEVER, IS ANOTHER STEP CLOSER TO RESOLUTION AND THE
DOMINICAN ECONOMY AS A WHOLE WILL BE THE WINNER.

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BT

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#### CONFIDENTIAL

#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT



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MID=199810702495

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CAVEAT (S) =

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ACTION = (TRS1EPD (1) · GI (1) · IADB (1) · IBRD (1) · <u>108 (1)</u> · IDC (1) · TOB\_11) INL (1) · ITI (1) · GC (1) · SEN (-) · UO (1)

CRC = F988

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DE RUEHDG #1898/81 1872222

ZNY CCCCC ZZH

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FM AMEMBASSY SANTO DOMINGO

TO RUEHC/SECSTATE WASHDC IMMEDIATE 9741

INFO RUEHPU/AMEMBASSY PORT AU PRINCE 8745

BT

C O N F I D E N T I A L SECTION 81 OF 82 SANTO DOMINGO 881898

E.O. 12958: DECL: 84/16/2883

TAGS: ENRG, DR

SUBJECT: SMITH-ENRON: SECOND MEDIATION SESSION NOT

HELD

REF: A. STATE 65977, B. SANTO DOMINGO 1872

(U) CLASSIFIED BY LINDA E. WATT, CHARGE D'AFFAIRES A.I.; REASON: 1.5 (D).

1. (C) SUMMARY: SMITH-ENROW IS CONTEMPLATING ISSUING A SUSPENSION NOTICE TO SHUT THEIR ELECTRIC POWER GENERATING PLANT DOWN BEFORE THE MAY 16 ELECTIONS WHICH COULD HAVE A SERIOUS IMPACT BOTH ON THE ELECTIONS AND THE COMPANY'S LONG TERM RELATIONSHIP WITH THE FERNANDEZ GOVERNMENT. THE SECOND MEETING IN THE MEDIATION PROCESS SPONSORED BY THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION, SCHEDULED TO TAKE PLACE IN SANTO DOMINGO ON MAY 16, WAS NOT HELD. WHILE CORPORACION DOMINICANA DE ELECTRICIDAD (CDE) [(b)(1)] ASSURED EMBOFFS THAT COE WOULD TAKE A REASONABLE APPROACH IN THE TALKS, SMITH-ENRON COUNTERS THAT A CDE PROPOSAL TABLED APRIL 8 SEEKS TO MOVE THE PROCESS BACK TO "GROUND ZERO" AND TO RAISE NEW ISSUES. AN EMBARGO IMPOSED AGAINST SMITH-ENRON IN A DOMINICAN COURT HAS GIVEN COE A REASON NOT TO MAKE A PROMISED PAYMENT. THE COMPANY HAS ALSO RECEIVED A SECOND STUNNING BLOW WITH A US\$28 MILLION AWARD AGAINST IT BY A LOCAL ARBITRATION PANEL. END SUMMARY.

2. (C) EMBOFFS CALLED ON [(b)(1)]
ON APRIL 15. [(b)(1)3SURED EMBOFFS THAT COE
WOULD TAKE A REASONABLE APPROACH IN ITS MEGOTIATION
WITH SMITH-EMRON. HE SAID THAT ONLY A FEW ITEMS REMAIN
FOR MEGOTIATION. WHEN ASKED IF THE SECOND MEETING IN
THE IFC-SPONSORED MEDIATION PROCESS WOULD TAKE PLACE,
[(b)(1)]

THAT HE HAD HEARD NOTHING FROM SHITH-

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17/21322

ENRON OR THE IFC AND WAS WAITING FOR SMITH-ENRON TO MOVE. HE ASSURED EMBOFFS THAT HE WISHED TO AVOID CONFLICT WITH THE U.S. POWER GENERATORS.

MEDIATION AT A STANDSTILL

3. (C) SMITH-EMRON, HOMEVER, MAD A DIFFERENT TALE TO TELL. [(b)(6)]
CONTACTED THE EMBASSY ON APRIL 16 TO REQUEST AN URGENT MEETING WITH CHARGE. ECO/POL COUNSELOR AND ECONOFF

ALSO PARTICIPATED. [(b)(4), (b)(6)]

NO PAYMENT MADE

[(b)(4), (b)(6)]

THAT A

PLAINTIFF IN A LOCAL LEGAL ACTION AGAINST SMITH-ENRON [(b)(6)] HAS MAMED ANY COMPANY WITH [(b)(6)] MAME ON IT IN THE ACTION, CATCHING SMITH-ENRON IN THE NET. THE JUDGE IN THE CASE MOVED LAST WEEK TO EMBARGO ALL PAYMENTS TO SMITH-ENRON.

[(b)(4), (b)(6)]

A SECOND HEARING IN THE CASE WILL BE HELD ON APRIL 28 AND [(b)(6%) PORTS THE COMPANY BELIEVES IT HAS SUFFICIENT GROUNDS TO PETITION THE JUDGE TO REMOVE THE EMBARGO. THIS MAY WELL DRAG OUT, HOWEVER, FURTHER EXACERBATING THE FINANCIAL DRAIN ON SMITH-ENRON.

#### CONFIDENTIAL

## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE 82 OF 82

MID=199810702405

843459 17/21322

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MID=199810702405

849459 17/21322

COMMENT

-----AND YET ANOTHER BLOW

[(b)(1)]

5. (C) [(b)(6)] INFORMED CHARGE THAT THE PANEL IN A SECOND ARBITRATION PROCESS INVOLVING SMITH-ENROW AND A HOTEL IN PUERTO PLATA MADE AN AWARD IN THAT CASE LAST WEEK. THE PANEL AWARDED THE PLAINTIFF RD\$187 MILLION IN DAMAGES PLUS INTEREST PAYMENTS AND LEGAL FEES. THE CONFIDENTIAL SECTION 82 OF 82 SANTO DOMINGO 881898

E.O. 12958: DECL: 84/16/2883

TAGS: ENRG, DR

SUBJECT: SMITH-ENRON: SECOND MEDIATION SESSION NOT

HELD

REF: A. STATE 65977, B. SANTO DOMINGO 1872

BT #189Ø

TOTAL AWARD IS APPROXIMATELY US\$28 MILLION. AN ENRON LEGAL TEAM IS IN SANTO DOMINGO CONSIDERING THE RESPONSE F988

TO THE AWARD.

NNNN

NEXT STEPS

[(b)(1), (b)(4), (b)(6)]

IS THUS SEEKING A MEETING WITH THE PRESIDENT AND SAID HE MAY APPROACH THE EMBASSY TO REQUEST ASSISTANCE IN PURSUING THE APPOINTMENT. THE CHARGE ASSURED HIM THE EMBASSY WILL PROVIDE ASSISTANCE.

[(b)(1)]

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#### PRIORITY

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#### CONFIDENTIAL

#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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PAGE 81

MID=199818488184

846937

14/00262

MID=199818488184

[(b)(4), (b)(6)]

846937

14/00262

CAVEAT (S) =

HANDLE VIA

ACTION = (TRS)EPD (1), GI (1), 1ADB (1), 1BRD (1), 1CM (1), 10B (1), 40G (1) 1DD (1), INL (1), ITI (1), 0IMF (1), QC (1), SEN (-), UC (1), XAA (1), XL (1) CRC = C733

PP RUEATRS
DE RUEHC #5977 1832833
ZNY CCCCC ZZH
P R 132832Z APR 98
FM SECSTATE WASHDC
TO RUEHDG/AMEMBASSY SANTO DOMINGO PRIORITY 5652
INFO RUEHPU/AMEMBASSY PORT AU PRINCE 4181
BT
C O N F I D E N T I A L STATE 865977

E.O. 12958: DECL: 4/14/83 TAGS: ECON EPET DR ENRG

SUBJECT: CDE SMITH-ENRON NEGOTIATIONS AT WORLD BANK REF: (A) 98 SANTO DOMI 1672, (B) 98 SANTO DOMI 1685

CLASSIFIED BY: MTMCMANUS, ACTING DIV CHIEF EB/ESC/IEC/EPC REASON 1.5 (B)

- 1. (U) DEPARTMENT APPRECIATES EMBASSY'S TIMELY AND INSIGHTFUL REPORTING ON THE SMITH-ENRON ELECTRIC POWER PLANT INVESTMENT DISPUTE. THE SMITH-ENRON ISSUE (THE PLANT PRODUCES TWENTY FIVE PERCENT OF THE DOMINICAN REPUBLIC'S ELECTRICITY) HAS RESONANCE WELL BEYOND THE TERMS OF THE CONTRACTUAL DISPUTE. EMBASSY IS COMMENDED FOR ITS SUCCESSFUL EFFORTS TO MITIGATE, AND IN MANY CASES TO PREVENT, FALLOUT FROM THE SMITH-ENRON POWER CRISIS FROM AFFECTING OTHER U.S. INVESTMENTS AND THE OVERALL PRIVATIZATION OF THE CORPORACION DOMINICANA DE ELECTRICIDAD (CDE).
- 2. (C) AT EMBASSY'S RECOMMENDATION, DEPARTMENT RECEIVED SMITH-ENRON'S [(b)(6)] IN WASHINGTON APRIL 3. [(b)(4), (b)(6)]

FURTHER COMPLICATING THE SITUATION, AN INTERNATIONAL ARBITRATION PAWEL IN MEXICO HAS NOW HEARD THE SMITH-ENRON CDE DISPUTE ICENTERING ON ADDITIONAL BACK PAYMENTS) WITH A POTENTIAL JUDGEMENT, ACCORDING TO [(b)(6)] 44 MILLION DOLLARS (EITHER WAY.) [(b)(4), (b)(6)]

4. [(b)(1), (b)(4), (b)(6)]

5. THE NEXT ROUND OF TALKS, SET FOR APRIL 16 IN SANTO DOMINGO, WILL BE INSTRUCTIVE.

ALBRIGHT

BT

#5977

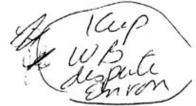
C733

NNNN

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#### CONFIDENTIAL

#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT



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MID=1998Ø9ØØ2Ø1Ø

848864 31/1955Z

B48864 31/19552

CAVEAT (S) =

HANDLE VIA

ACTION = [TRS] EPD (1) . G1 (1) . [BRD (1) . [DB (1) . [DC (1) . [DD (1) . [NL,1]) ITI (1) . QC (1) . SEN (-) . UO (1)

CRC = 147C

OO RUEATRS

DE RUEHOG #1685/81 8981958

ZNY CCCCC ZZH

0 311958Z MAR 98-

FM AMEMBASSY SANTO DOMINGO

TO RUEHC/SECSTATE WASHOC THMEDIATE 9497

INFO RUEHPU/AMEMBASSY PORT AU PRINCE 8783

C O N F | D E N T | A L SECTION 81 OF 82 SANTO DOMINGO 881685

E.O. 12958: DECL: #3/31/2##3

TAGS: ENRG, DR

SUBJECT: SMITH-ENRON: BATTLES WITH CDE CONTINUE

REF: SANTO DOMINGO 1872

(U) CLASSIFIED BY: LINDA E. WATT, CHARGE D'AFFAIRES A. I., REASON: 1.5 (D).

1. (C) SUMMARY: THE FIRST WORLD BANK-CHAIRED MEDIATION MEETING BETWEEN SMITH-ENRON AND THE CORPORACION DOMINICANA DE ELECTRICIDAD (CDE) IS SCHEDULED TO TAKE PLACE APRIL 2. THE DISPUTE DETAILED IN REFTEL CONTINUES, HOWEVER, WITH SMITH-ENRON CONSIDERING . CDE HAS YET TO [(b)(4)]MAKE ANY PAYMENT ON THE JANUARY INVOICE DUE MARCH 18 AND SMITH-ENRON IS NOW OVER [(b)(4)] IN DEBT TO -HIS FUEL SUPPLIER. [(b)(4), (b)(6)]

MID=199889882818

INVOICE AND CONTINUES TO STATE IT WILL ASSESS THE DISPUTED PENALTIES AGAINST SMITH-ENRON. IT HAS ALSO PRESENTED SMITH-ENRON WITH A BILL FOR CERTAIN BANK CHARGES WHICH[(b)(6))TATES ARE COMPLETELY OUTSIDE THE CONTRACT.

3. (C) [(b)(6)]PORTS SMITH-ENRON IS NOW OVER [(b)(4)] IN DEBT TO ITS FUEL SUPPLIER. ENRON FUELS INTERNATIONAL. ON APRIL 7, IT WILL GO OVER THE 188 DAY PAYMENT PERIOD SPECIFIED IN ITS NEW AGREEMENT WITH THE

[(b)(4), (b)(6)]

CDE THREATENS A TAKE-OVER

[(b)(1), (b)(4), (b)(6)]

MISPLACED OPTIMISM -----

[(b)(4)]

APPEARANCES IN ADVANCE OF THE MEDIATION

[(b)(4), (b)(6)]

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#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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MID=199889882818

848864 31/1955Z

[(b)(4), (b)(6)]

COMMENT

[(b)(1)]

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MID=199824602197

03/21382 849826

CAVEAT (S) =

HANDLE VIA

ACTION = [TRS]BOI (1) + CID (1) + EPD (1) + GI (1) + IBRD (1) + IDB (1) + IDC (1) IDD (1) . IMB (1) . INL (1) . ITI (1) . ITN (1) . OIMF (1) . QC (1) . SEN (-) . UO (1) -

OO RUEATRS DE RUEHDG #4388/81 2462846 ZNY CCCCC ZZH O 032046Z SEP 98 FM AMEMBASSY SANTO DOMINGO TO RUEHC/SECSTATE WASHDC IMMEDIATE 1588 INFO RUEHPU/AMEMBASSY PORT AU PRINCE 1818 RUCPDOC/USDOC WASHDC CONFIDENTIAL SECTION 01 OF 82 SANTO DOMINGO 684388

USDOC FOR 3134/USFCS/010/WH/RD USDOC FOR 4322/ITA/IEP/WH/OMCB/SIEGELMAN

E.O. 12958: DECL: 89/83/2083 TAGS: ENRG EINV PREL DR SUBJECT: SMITH ENRON MAKES A DEAL?

REF: SANTO DOMINGO 3553

- 1. (U) CLASSIFIED BY LINDA E. WATT CHARGE D'AFFAIRES A. I.; REASON: 1.5 (D)
- 2. (C) SUMMARY: TALKS BROKERED BY THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION (IFC) SETWEEN THE ENRON CORPORATION AND THE STATE-OWNED CORPORACION DOMINICANA DE ELECTRICIDAD (CDE) YIELDED A PRELIMINARY MEMORANDUM OF UNDERSTANDING SIGNED ON AUGUST 28. BOTH SIDES MADE CONCESSIONS: [(b)(1), (b)(4)]

MID=199824602197

848826

63/21382

[(b)(4)]

THE ENRON NEGOTIATING TEAM

WAS LED BY [(b)(6)] ENRO
INTERNATIONAL. CDE'S TEAM WAS LED BY [(b)(6)]

4. (C) WHEN ASKED ABOUT THE STATUS OF THE MEXICO-BASED ARBITRATION PANEL, [(b)(6)]PLIED THAT ENRON'S ATTORNEYS HAD INFORMALLY INQUIRED ABOUT THE PROGRESS OF THE PANEL AND DISCOVERED IT IS LIKELY THE FANEL WILL ASK FOR AN EXTENSION FROM THE INTERNATIONAL CHAMBER OF COMMERCE INTERNATIONAL COURT OF ARBITRATION IN PARIS. [(b)(4)]

ELEMENTS OF THE DEAL

[(b)(1), (b)(4), (b)(6)]

3. (C) SMITH-ENRON [(b)(6)] INFORMED THE EMBASSY SEPTEMBER 2 THAT A ROUND OF IFC-BROKERED TALKS BETWEEN THE ENROW CORPORATION AND THE CORPORACION DOMINICANA DE ELECTRICIDAD (CDE) HELD IN HOUSTON AUGUST 27 AND 28 HAD BEEN SUCCESSFUL. [(b)(4)]

#### CONFIDENTIAL

# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE 82 OF 82 MID=199824682197

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MID=199824602197

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FINANCIAL SETTLEMENT PROPOSAL -----

COMMENT

[(b)(1), (b)(4)]

[(b)(1), (b)(6)]

USDOC FOR 3134/USFCS/010/WH/RD USDOC FOR 4322/ITA/IEP/WH/OMCB/SIEGELMAN

E.O. 12958: DECL: 09/03/2003 TAGS: ENRG EINV PREL DR

SUBJECT: SMITH ENRON MAKES A DEAL?

REF: SANTO DOMINGO 3553

MEXT STEPS

[(b)(1), (b)(4), (b)(6)]

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#### CONFIDENTIAL

DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE Ø1 OF Ø2

MID=199830701791

075637 83/17282 MID=199838781791

975637

Ø3/1728Z

CAVEAT (S) =

ACTION = LTRSJBOJ (1), GI (1), IDC (1), IMB (1), INL (1), ITI (1), GIMF-(1),

QC (1) . SEN (-) . UO (1)

CRC = DBDC

BACKGROUND

[(b)(1), (b)(4)]

OO RUEATRS DE RUEHDG #5466/81 3871644 ZNY CCCCC ZZH O B31644Z NOV 98 FM AMEMBASSY SANTO DOMINGO TO RUEHC/SECSTATE WASHDC IMMEDIATE 2424 INFO RUEHPU/AMEMBASSY PORT AU PRINCE 1135 RUCPDOC/USDOC WASHDC CONFIDENTIAL SECTION 81 OF 82 SANTO DOMINGO 885466

USDOC FOR 3134/USFCS/010/WH/RD USDOC FOR 4322/Q/OMCB/SIEGELMAN

E.O. 12958: DECL: 09/84/03 TAGS: ENRG EINV PREL DR SUBJECT: AES IN CRISIS YET AGAIN

- 1. (U) CLASSIFIED BY LINDA E. WATT CHARGE D'AFFAIRES A. I.; REASON: 1.5 (D)
- 2. (C) SUMMARY: AES DOMINICAN POWER PARTNERS (AES OPP) ISSUED A NOVEMBER 2 SHUT BOWN NOTICE TO THE CORPORACION DOMINICANA DE ELECTRICIDAD ICDE). THE PLANT WILL BE TAKEN OFF-LINE FOLLOWING PEAK DEMAND ON NOVEMBER 4 IF A SUBSTANTIAL PAYMENT IS NOT RECEIVED. [(b)(1), (b)(4)]

#### END SUMMARY

- .......

3. (U) BY LETTER DATED NOVEMBER 2, 1998, AES DPP GENERAL MANAGER RUBEN SOROETA INVOKED THE 24-HOUR NOTICE CLAUSE IN THE AES CONTRACT AND INFORMED CDE IT WILL TAKE THE PLANT OFF-LINE AFTER THE DEMAND PEAK ON NOVEMBER 4. IF NO PAYMENT IS RECEIVED. [(b)(4)]

CDE IN CRISIS TOO

8. (C) IN TERMS OF THE MONIES IT IS (OR RATHER IS NOT) GENERATING: CDE IS ITSELF AN INSTITUTION IN GREATER

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## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE 82 OF 82

MID=199830781791 CRISIS FOLLOWING HURRICANE GEORGES.

C O N F | D E N T ! A L SECTION 02 OF 02 SANTO DOMINGO 005466

075637

03/17282

MID=199838781791

075637

93/1728Z

[(b)(1)]

BT #5466 DBDC

NHHH

USDOC FOR 3134/USFCS/010/WH/RD USDOC FOR 4322/ITA/IEP/WH/OMCB/SIEGELMAN

E.O. 12958: DECL: 89/84/83 TAGS: ENRG EINV PREL DR SUBJECT: AES IN CRISIS YET AGAIN

[(b)(1)]

COMMENT

[(b)(1)]

WATT

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#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT



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MID=199831002041

978953

86/16897

CAVEAT (S) =

HANDLE VIA

ACTION = [TRS] BOI (1) , EPD (1) , GI (1) , IBRD (1) , IDB (1) , IDC (1) + IDD (1) IMB (1) , INL (1) , ITI (1) , OIMF (1) , QC (1) , SEN (-) , UO (1)

CRC = 29C8

RR RUEATRS DE RUEHDG #5546/Ø1 31Ø1519 ZNY CCCCC ZZH R #615197 NOV 98 FM AMEMBASSY SANTO DOMINGO TO RUEHC/SECSTATE WASHDC 2488 INFO RUEHPU/AMEMBASSY PORT AU PRINCE 1146 RUCPDOC/USBOC WASHDC

C O N F I D E N T I A L SECTION B1 OF B2 SANTO DOMINGO BB5546

USDOC FOR 3134/USFCS/010/WH/RD USDOC FOR 4322/ITA/IEP/WH/OMCB/SIEGELMAN

E.O. 12958: DECL: 11/83/2083 TAGS: ENRG EINV PREL DR SUBJECT: ELECTRICITY WARS: IPP INTERESTS DIVERGE

- 1. (U) CLASSIFIED BY LINDA E. WATT CHARGE D'AFFAIRES A. I.; REASON: 1.5 (D)
- 2. (C) SUMMARY: THE INTERESTS OF THE PRIMARILY-U.S. INDEPENDENT POWER PRODUCERS (IPPS) ARE DIVERGING IN THE FACE OF A DECISION BY THE GOOR TO MAINTAIN THE ADMINISTRATION OF PRIVATE PRODUCER CONTRACTS WITHIN CDE AFTER THE CAPITALIZATION PROCESS. SMITH-ENRON AND AES. DOMINICAN POWER PARTNERS ARE PRESSING TO HAVE THEIR CONTRACTS TRANSFERRED TO THE NEW DISTRIBUTION COMPANIES. THE SMALLER IPPS ARGUE IN FAVOR OF NEGOTIATING ON THE BASIS OF THE GODR PROPOSAL. ALL THE IPPS WANT SOME GUARANTEE THAT THEIR DEBTS WILL BE PAID. HOWEVER, AND THAT THEIR FUTURE BILLS WILL BE TREATED FAIRLY. THE CAPITALIZATION OF CDE IS NOW SCHEDULED TO MOVE AHEAD IN DECEMBER BUT SOME CITE CONCERNS THAT IT MAY YET BE DERAILED. END SUMMARY.

#### BACKGROUND

3. (U) THE OFT-DELAYED CAPITALIZATION OF THE DOMINICAN..... STATE-OWNED POWER COMPANY, CORPORACION DOMINICANA DE ELECTRICIDAD (CDE). IS NOW SET TO MOVE AHEAD IN EARLY DECEMBER. CDE'S THERMAL GENERATION AND DISTRIBUTION CAPACITY WILL BE SPUN OFF INTO FIVE DIFFERENT COMPANIES (TWO GENERATION AND THREE DISTRIBUTION). CDE WILL CONTINUE TO EXIST AS A LEGAL ENTITY OPERATING THE STATE-OWNED HYDROPOWER PLANTS. IT WILL ALSO CONTINUE

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86/16897

TO CONTROL TRANSMISSION FUNCTIONS. IMPORTANT QUESTIONS ABOUT THE FUTURE RELATIONSHIP BETWEEN THE PRIMARILY U.S.-OWNED INDEPENDENT POWER PRODUCERS (IPPS) AND CDE AND THE FUTURE DISTRIBUTION COMPANIES (DISCOS) REMAIN.

CREP LAYS DOWN THE LAW: DEBT TO GO TO CDE SUCCESSOR .....

- 4. (C) BY LETTER OF OCTOBER 16, CREP (THE COMMISSION FOR THE REFORM OF PUBLIC SECTOR COMPANIES) CONFIRMED TO THE IPPS ITS INTENTION TO MAINTAIN THE ADMINISTRATION OF PRIVATE PRODUCER CONTRACTS WITHIN CDE AFTER THE CAPITALIZATION PROCESS. CREP ALSO INFORMED THE IPPS IT WILL ONLY ACCEPT DEBT AMOUNTS RECONCILED WITH CDE FOR TRANSFERRAL TO THE BOOKS OF ITS HYDROPOWER SUCCESSOR. WHILE DEBT RECONCILIATION IS STILL AN IMPORTANT ISSUE (PARTICULARLY FOR AES DOMINICAN POWER PARTNERS), ALL THE IPPS ARE ALSO UNDERSTANDABLY CONCERNED THAT THE CREP'S VISION OF THE CDE SUCCESSOR'S ABILITY TO ASSUME THEIR LONG-STANDING DEBTS MAY BE BASED ON AN OVERLY ROSY SCENARIO.
- 5. (C) WHILE THE CREP DECISION AFFECTS ALL THE IPPS, IT IS OF PARTICULAR INTEREST TO SMITH-ENRON AND AES DPP WHICH HAVE CONTRACT CLAUSES STATING THAT IF CDE WERE TO SELL ANY SIGNIFICANT PART OF ITS ASSETS, THEIR CONTRACTS WOULD BE PASSED TO THE BUYER. SMITH-ENRON AND AES MADE THIS ARGUMENT TO THE CREP WHICH RESPONDED WITH A LEGAL DECISION ARGUING THAT THE CAPITALIZATION IS NOT A SALE, THEREFORE THE CONTRACT PROVISIONS DO NOT APPLY. THE IPPS MET ON OCTOBER 28 TO DISCUSS WHAT ACTION TO TAKE IN RESPONSE TO THE CREP LETTER.

[(b)(1), (b)(4)]

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## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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MID=199831892841

978953 86/1689Z MID=199831892841

878853 06/16097

[(b)(4)]

[(b)(4)]

COMMENT

9. (C) IT IS TROUBLING THAT THE IPPS HAVE RECEIVED NO ACCEPTABLE GODR GUARANTEE THAT THEIR DEBTS WILL BE COVERED LESS THAN ONE MONTH BEFORE THE NEW DATE FIXED FOR THE FIRST ROUND OF BIBS. WE ARE CONCERNED ABOUT THE EVENTUAL SUCCESS OF THE CAPITALIZATION GIVEN THE QUESTIONS THAT REMAIN UNANSWERED. WATT

#5546 2908 NNNH

USDOC FOR 3134/USFCS/010/WH/RD USDOC FOR 4322/ITA/IEP/WH/ONCB/SIEGELMAN

E.O. 12958: DECL: 11/83/2883 TAGS: ENRG EINV PREL DR

SUBJECT: ELECTRICITY WARS: IPP INTERESTS DIVERGE

[(b)(4)]

CONCERNS ABOUT THE CAPITALIZATION ......

[(b)(4)]

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#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT



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the Table 1

PAGE Ø1 MID=1998310Ø196Ø Ø78027

CAVEAT (S) =

HANDLE VIA

ACTION = [TRS] BOI (1) · EPD (1) · GI. (1) · IBRD (1) · IDB (1) · IDC (1)

IMB (1) · INL (1) · ITI (1) · OIMF (1) · QC (1) · SEN (-) · UO (1)

CRC = EB43

RR RUEATRS
DE RUEHDG #5545 3101519
ZNY CCCCC ZZH
R 061519Z NOV 98
FM AMEMBASSY SANTO DOMINGO
TO RUEHC/SECSTATE WASHDC 2487
INFO RUEHPU/AMEMBASSY PORT AU PRINCE 1145
RUCPDOC/USDOC WASHDC
BT
C O N F I D E N T I A L SANTO DOMINGO 005545

USDOC FOR 3134/USFCS/OIO/WH/RD USDOC FOR 4322/ITA/IEP/WH/OMCB/SIEGELMAN

E.O. 12958: DECL: 11/05/2005
TAGS: ENRG PREL EINV DR
SUBJECT: SMITH-ENRON WINNING THE PAYMENTS STAKES

REF: A. SANTO DOMINGO 5466 B. SANTO DOMINGO 3617

1. (U) CLASSIFIED BY LINDA E. WATT CHARGE D'AFFAIRES A. I.; REASON: 1. 5 (D)

1. (C) ALTHOUGH REFTEL A REPORTS ON AES DOMINICAN POWER PARTNER'S PAYMENTS PROBLEMS WITH THE CORPORACION DOMINICANA DE ELECTRICIDAD (CDE). SMITH-ENRON REPORTS A ROSIER PICTURE. [(b)(4),(b)(6)]

BT = 5545 EB43 NNNN

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#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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15 THE R. LEWIS CO., LANSING MICH.

PAGE Ø1 MID=199833102174 Ø10864 27/2315Z CAVEAT (S) =

CAVEAT (S) =
HANDLE VIA
ACTION = [TRS] BOI (1) - GI (1) - TBRD (1) - IDB (1) - IDC (1) - IMB (1) - INL (1)
ITI (1) - OIMF (1) - QC (1) - SEN (-) - UO (1)
CRC = 7F2F

RR RUEATRS
DE RUEHDG #5824 3312023
ZNR UUUUU ZZH
R 272023Z NOV 98
FM AMEMBASSY SANTO DOMINGO
TO RUEHC/SECSTATE WASHDC 2695
INFO RUEHPU/AMEMBASSY PORT AU PRINCE 1189
RUCPDOC/USDOC WASHDC
BT
UNCLAS SANTO DOMINGO 005824

SENSITIVE

USDOC FOR 3134/USFCS/OIO/WH/RD USDOC FOR 4322/ITA/IEP/WH/OMCB/SIEGELMAN

E.O. 12958: N/A TAGS: ENRG PREL EINV DR SUBJECT: SMITH-ENRON AGAIN RISKS DEFAULT

REF: A. SANTO DOMINGO 5545

THIS MESSAGE CONTAINS SENSITIVE BUT UNCLASSIFIED INFORMATION-PROTECT ACCORDINGLY

1. (SBU) ALTHOUGH SMITH-ENRON HAD REPORTED A SATISFACTORY FLOW OF PAYMENTS FROM THE CORPORACION DOMINICANA DE ELECTRICIDAD (CDE) IN EARLY NOVEMBER. THE SITUATION HAS SINCE TAKEN A CHANGE FOR THE WORSE.

[(b)(4), (b)(6)]

WATT BT \*5824 7F2F NNNN

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## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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27/23212

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MID=199833182179

212866 27/23212

CAVEAT (S) = HANDLE VIA

ACTION = (TRS)801 (1) , EPD (1) , G1 (1) , IADB (1) , IBRD (1) , IDB (1) , IDG (1) 100 (1) , IMB (1) , INL (1) , ITI (1) , O(MF (1) , QC (1) , SEN (-) , UO (1)

CRC = 1198

RR RUEATRS DE RUEHDG #5826/81 3312829 ZNY CCCCC ZZH R 272829Z NOV 98 FM AMEMBASSY SANTO DOMINGO

TO RUEHC/SECSTATE WASHDC 2697

INFO RUEHPU/AMEMBASSY PORT AU PRINCE 1191

RUCPDOC/USDOC WASHDC

CONFIDENTIAL SECTION 81 OF 82 SANTO DOMINGO 885826

USDOC FOR 3134/USFCS/010/WH/RD USDCC FOR 4322/ITA/IEP/WH/OMCB/SIEGELMAN

E.O. 12958: DECL: 11/27/2003 TAGS: ENRG EINV PREL DR

SUBJECT: PRESIDENT SAYS CDE CAPITALIZATION IS ON

(U) CLASSIFIED BY ECO/POL COUNSELOR PAUL LARSEN;

REASON: 1.5 (D)

2. (C) SUMMARY: PRESIDENT FERNANDEZ HAS PUBLICLY CONFIRMED THAT THE CAPITALIZATION OF THE STATE-OWNED CORPORACION DOMINICANA DE ELECTRICIDAD (CBE) WILL GO FORWARD. THE BIDDING ON THE DISTRIBUTION AND THERMAL GENERATION UNITS WILL TAKE PLACE ON DECEMBER 17 AND 21 RESPECTIVELY. THE INDEPENDENT POWER PRODUCERS (IPPS) CONTINUE TO NEGOTIATE WITH THE COMMISSION OVERSEEING THE CAPITALIZATION (CREP), BUT THEY ARE CLOSER TO ACCEPTING THE GODR'S PROPOSAL THAT THEIR CONTRACTS BE ASSIGNED TO THE CDE/HYDRO COMPANY FOLLOWING CAPITALIZATION WHILE THEY ARE PAID FROM AN ESCROW ACCOUNT. [(b)(4)]

END

SUMMARY.

3. (U) SPEAKING ON NOVEMBER 19 AT THE INAUGURAL SESSION OF THE 29TH MEETING OF ENERGY MINISTERS OF LATIN AMERICA AND THE CARIBBEAN, PRESIDENT FERNANDEZ ANNOUNCED THAT THE CAPITALIZATION OF CDE'S DISTRIBUTION AND THERMAL GENERATION UNITS WILL TAKE PLACE ON DECEMBER 17 AND 21 RESPECTIVELY. HE ALSO SAID THE GODR WILL ASSUME RESPONSIBILITY FOR CDE'S DEBT TO MULTILATERAL ORGANIZATIONS WHILE LEAVING THE CDE SUCCESSOR COMPANY TO COVER THE CDE DEBT TO THE IPP'S

AND OTHER CREDITORS. THE PART OF HIS SPEECH THAT

GARNERED MOST ATTENTION IN THE DOMINICAN PRESS WAS AN ANNOUNCEMENT THAT 7, 888 CDE EMPLOYEES WILL BE LAID OFF IN JANUARY, ALTHOUGH HE EXPLAINED THAT MOST WILL BE REHIRED BY THE CDE SUCCESSOR COMPANY OR RELOCATED

MID=199833102179

ELSEWHERE WITHIN THE PUBLIC SECTOR.

BACKGROUND

4. (U) CDE'S THERMAL GENERATION AND DISTRIBUTION CAPACITY WILL BE SPUN OFF INTO FIVE DIFFERENT COMPANIES (TWO GENERATION AND THREE DISTRIBUTION). CDE WILL CONTINUE TO EXIST AS A LEGAL ETITY OPERATING THE STATE-OWNED HYDROPOWER PLANTS. NOTWITHSTANDING CLAUSES IN THE CONTRACTS OF AESDOMINICAN POWER PARTNERS AND SMITH-ENRON (THE TW LARGEST IPPS) THAT IN THE EVENT OF THE SALE OF DE ASSETS THEIR CONTRACTS WOULD BE PASSED TO THEBUYER, THE CREP INFORMED THE IPPS IN OCTOBER THAT THEIR CONTRACTS WILL BE ADMINISTERED THROUGH CDE/HYDRO FOLLOWING CAPITALIZATION. THE CREP PROPOSED THAT THE NEW DISTRIBUTION COMPANIES (DISCOS) PAY INTO AN ESCROW ACCOUNT FROM WHICH PAYMENTS FOR CURRENT ENERGY SALES AND THE DEBT WILL BE MADE TO THE IPPS. THE CREP SUGGESTED THAT THE DEBT BE PAID DOWN OVER 2-3 YEARS.

IPP MEGOTIATIONS WITH THE GODR CONTINUE

5. [(b)(4)]

THE IPPS PROVIDED A PROPOSED MOU, COPIES OF WHICH HAVE BEEN FAXED TO ARA/CAR AND EB/ESC, WHICH WAS TO BE DELIVERED TO THE CREP LATER THE SAME DAY. THE CREP WAS SCHEDULED TO DISCUSS IT THE NIGHT OF NOVEMBER 25 AND BRIEF PRESIDENT FERNANDEZ ON THE 26TH.

6. IC) THE HIGHLIGHTS OF THE IPP PROPOSAL INCLUDE: [(b)(4)]

#### CONFIDENTIAL

#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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MID=199833102179

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[(b)(1), (b)(4)]

C O N F I D E N T I A L SECTION 82 OF 82 SANTO DOMINGO 885826

USDOC FOR 3134/USFCS/010/WH/RD USDOC FOR 4322/ITA/1EP/WH/OMCB/SIEGELMAN

E.O. 12958: DECL: 11/27/2903 TAGS: EMRG EINV PREL DR

SUBJECT: PRESIDENT SAYS CDE CAPITALIZATION IS ON

[(b)(1), (b)(4)]

## COMMENT

8. (C) THE IPPS ARE GETTING CLOSER TO AN AGREEMENT WITH THE GODR. AS REPORTED SEPTELS, HOMEVER, SMITH-ENRON AND AES NEED MONEY BADLY. [(b)(4)]

WATT

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**#5826** 

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CONFIDENTIAL

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#### CONFIDENTIAL

#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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MID=199814982285

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MID=199814982285

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CAVEAT (S) =

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ACTION = (TRS)BOI (1), EPD (1), GI (1), IBRD (1), IDB (1), IDC (1), IDD (1), IDB (1), IDC (1), IDD (1), IDB (1), IDC (1), IDD (1)

RR RUEATRS
DE RUEHDG #2683/81 1491739
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FM AMEMBASSY SANTO DOMINGO
TO RUEHC/SECSTATE WASHDC 8276
INFO RUEHPU/AMEMBASSY PORT AU PRINCE 8826
BT
C O N F I D E N T I A L SECTION 81 OF 82 SANTO DOMINGO 882683

E.O. 12958: DECL: 5/26/2003 TAGS: ENRG EINV DR SUBJECT: PRESIDENT FERNANDEZ MEETS WITH U.S. POWER COMPANIES

REF: SANTO DOMINGO 2529

CLASSIFIED BY CHARGE D'AFFAIRES LINDA E. WATT; REASON: 1.5 (D)

- 1. (C) SUMMARY: THE U.S. INDEPENDENT POWER PRODUCERS
  (1PPS) MET WITH PRESIDENT FERNANDEZ ON MAY 26, 1998.
  THE PRESIDENT REFERRED THE DISCUSSION OF ACTUAL DEBT
  NUMBERS BACK TO THE OFFICES OF THE CORPORACION
  DOMINICANA DE ÉLECTRICIDAD (CDE) AND RESPONDED MITH AN
  EMPHATIC "NO" WHEN ASKED IF THE ADMINISTRATION WOULD
  INCREASE ITS MONTHLY SUBSIDY TO CDE IN ORDER TO HELP
  COVER THE DEBT. HE ASKED THE IPPS TO PREPARE A PAPER
  DETAILING THEIR PROPOSALS ON HOW THE DEBT CAN BE
  HANDLED IN THE CONTEXT OF THE PRIVATIZATION OF CDE AND
  PLEDGED TO INVITE THEM TO A MEETING BETWEEN CDE AND THE
  COMMISSION OVERSEEING THE PRIVATIZATION. END SUMMARY.
- 2. (C) PRESIDENT FERNANDEZ MET WITH U.S. IPP
  REPRESENTATIVES ON TUESDAY, MAY 26. SMITH-EMRON, THE
  COMPANIA DE ELECTRICIDAD DE PUERTO PLATA (COASTAL) AND
  TRANSCONTINENTAL CAPITAL CORP. (SEABOARD) WERE
  REPRESENTED. AES DOMINICAN POWER PARTNERS ALSO
  ATTENDED ALTHOUGH THEY UNDERLINED TO THE EMBASSY IN
  ADVANCE OF THE MEETING THAT THEY WOULD PARTICIPATE ONLY
  AS "PASSIVE OBSERVERS." CHARGE ATTENDED THE MEETING
  ACCOMPANIED BY ECONOFF (NOTETAKER). GOOR
  REPRESENTATIVES INCLUDED CDE ADMINISTRATOR RHADAMES
  SEGURA, ADMINISTRATIVE SECRETARY SIMON LIZARDO, AND
  EDDY MARTINEZ OF THE OFFICE FOR INVESTMENT PROMOTION.

OPPOSING SIDES

- 3. (C) THE MEETING OPENED WITH A STATEMENT BY THE DESIGNATED IPP SPOKESMAN POINTING TO THE ACCUMULATED DEBT AND THE INCREASING DIFFICULTY FACED BY THE IPPS IN PAYING THEIR BILLS. HE SPOKE TO THEIR CONCERN ABOUT HOW THE DEBT WILL BE TREATED IN THE PRIVATIZATION PROCESS. HE ALSO UNDERLINED THEIR UNHAPPINESS WITH THE CURRENT SITUATION IN WHICH CDE CUTS (OR "CLIPS") THE MONTHLY INVOICES SUBMITTED BY THE IPPS WITH NO EXPLANATION. ANOTHER IPP REPRESENTATIVE PROPOSED THAT A THIRD PARTY, SUCH AS AN INTERNATIONAL ACCOUNTING FIRM, BE BROUGHT IN TO REVIEW THE PROCESS BY WHICH CDE CLIPS THE INVOICES.
- 4. (C) CDE ADMINISTRATOR SEGURA RESPONDED, SAYING THAT CDE IS CONSIDERING ALTERNATIVES TO DEAL WITH THE DEBT AND THAT A PACKAGE OF PROPOSALS WILL BE SUBMITTED TO THE PRESIDENT. ACCORDING TO SEGURA, CDE CALCULATES THE ACCUMULATED DEBT AT \$54 MILLION (AS OPPOSED TO THE MORE THAN \$128 MILLION CALCULATED BY THE IPPS). OF THIS AMOUNT, HE STRESSED, \$25 MILLION WAS INHERITED FROM THE PREVIOUS GOVERNMENT AND SHOULD BE FINANCED IN SOME WAY. THE REMAINING \$38 MILLION HE SUGGESTED COULD BE REPAID BY REDUCING THE CURRENT PAYMENTS TO THE IPPS FOR FUEL. HE ALSO REFERRED TO PAST EXCESSIVE CHARGES BY SMITHENRON AND AES FOR FUEL CALCULATED BY CDE AT US\$24 MILLION AND US\$28 MILLION RESPECTIVELY.

PRESIDENT SAYS "NO" TO NEW SUBSIDIES...

S. (C) THE PRESIDENT LISTEMED TO THE DISCUSSION OF DEBT NUMBERS AND COMMENTED THAT THE MEETING WAS NOT THE APPROPRIATE VENUE FOR DISCUSSION OF SUCH DETAILS, SUGGESTING THAT THE CONVERSATION BE CONTINUED AT THE CDE OFFICES. MHEN ASKED IF THE GOVERNMENT MIGHT RESOLVE THE DEBT BY INCREASING ITS MONTHLY SUBSIDY TO CDE (NOW APPROXIMATELY \$17 MILLION), THE PRESIDENT RESPONDED WITH AN EMPHATIC "ABSOLUTELY NOT." HE SAID THAT TO DO SO WOULD RESULT IN A FISCAL DEFICIT WHICH WOULD HAVE A NEGATIVE IMPACT ON THE DR'S FRAGILE. MACROECONOMIC STABILITY. THE PRESIDENT ADDED THAT THIS DID NOT MEAN THAT THE GOVERNMENT WOULD NOT BE WILLING TO WORK WITH THE IPPS TO FIND A WAY TO FINANCE THE DEBT.

...BUT ASKS FOR IPP INPUT

<sup>6. (</sup>C) THE PRESIDENT REQUESTED THAT THE IPPS DRAFT A PAPER FOR HIM PROPOSING POSSIBLE MEANS TO ELIMINATE THE DEBT THROUGH THE PRIVATIZATION PROCESS OR TO FINANCE IT

#### CONFIDENTIAL

#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE 82 OF 82 MID-199814982285 878493 29/1886Z
INDEPENDENT OF THE PRIVATIZATION PROCESS THROUGH A BOND
ISSUE OR OTHER MECHANISM. WITH THEIR PROPOSALS IN
MAND, THE PRESIDENT SAID HE WOULD INVITE THEM TO JOIN
WITH HIM AT THE WEEKLY MEETING BETWEEN THE COMISION DE
REFORMA DE LA EMPRESA PUBLICA (CREP) AND CDE TO DISCUSS
THEIR CONCERNS AND IDEAS WITH COMMISSION HEAD ANTONIO
ISA CONDE. THE PRESIDENT ADMITTED THAT HE IS ALSO
CONCERNED ABOUT HOM THE CURRENT DEBT BEING INCURRED BY
CDE FOR THE PURCHASE OF THE GEC ALSTHROM AND SIEMENS
C O N F I D E N T I A L SECTION 82 OF 82 SANTO DOMINGO 882683

E.O. 12958: DECL: 5/26/2003
TAGS: ENRG EINV DR
SUBJECT: PRESIDENT FERNANDEZ MEETS WITH U.S. POWER
COMPANIES

REF: SANTO DOMINGO 2529

TURBINES WILL BE HANDLED IN THE PRIVATIZATION OF CDE.

#### COMMENT

NNNN

7. (C) WHILE DISAPPOINTED THAT THE MEETING DID NOT YIELD SOME IMMEDIATE RELIEF ON DEBT PAYMENTS. THE IPPS MERE GENERALLY PLEASED THAT THEY WERE ABLE TO DRAW MORE ATTENTION TO THE ACCUMULATED DEBT. THEY ARE ALSO PLEASED TO HAVE THE OPPORTUNITY TO TAKE THEIR CASE TO THE CREP.

8. (C) WE FOUND THE PRESIDENT'S REFERENCE TO HIS
PARTICIPATION IN WEEKLY MEETINGS BETWEEN THE CREP AND
CDE PARTICULARLY INTERESTING. WE BELIEVE THESE
MEETINGS ARE NOW BEING HELD TO KEEP THE PRIVATIZATION
PROCESS UNDERWAY. IN A CONVERSATION WITH CHARGE AFTER
THE MEETING, SEGURA WAS EFFUSIVE IN HIS SUPPORT OF
PRIVATIZATION. WE BELIEVE HE WAS TAKEN TO THE MOODSHED
AND THUS HAS MODERATED HIS POSTURE. WATT
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# CONFIDENTIAL

#### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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MID=199814282651

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CAVEAT (S) =

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ACTION = [TRS]G((1).1ADB(1).1BRD(1).1DB(1).1DC(1).1DD(1).4HL-(1)

ITF(1).1TI(1).01MF(1).QC(1).SEN(-).UO(1).XAA(1).XLI(1)

CRC = F9D3

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TO RUEHDG/AMEMBASSY SANTO DOMINGO IMMEDIATE 6818
INFO RUEHCU/AMEMBASSY CARACAS 9784
RUEHPU/AMEMBASSY PORT AU PRINCE 4628

RUEHSP/AMEMBASSY PORT OF SPAIN 6692

BT

[(b)(1)]

E.O. 12958: DECL: 5/22/03 TAGS: ECON KSUM ENRG

SUBJECT: BILATERAL WITH DOM REP POWER OFFICIAL REF: (A) 98 SANTO DOMI 2027. (B) 98 SANTO DOMI 2022

CLASSIFIED BY S GALLOGLY, DIVISION CHIEF, EB/ESC/IEC/EPC REASON 1.5 (B)

#### 1. [(b)(6)]

WAS A PANELIST

AT THE INSTITUTE OF THE AMERICA'S LATIN AMERICAN ENERGY CONFERENCE, HELD MAY 18-19 IN LA JOLLA, CALIFORNIA. HIS PRESENTATION OVERVIEWED THE PRIVITIZATION PLAN FOR CDE.

- 2. U) AN EB/IEC OFFICER SPOKE WITH [(b)(6)]ON THE MARGINS OF THE CONFERENCE, OFFERING COMPLIMENTS ON HIS PRESENTATION AND EXPRESSING USG INTEREST AND ENCOURAGEMENT FOR A VIABLE PRIVITIZATION OF CDE.
  [(b)(6)]PPRECIATED THE INTEREST.
- 3. (C) EB OFF NOTED HOWEVER, THAT ONGOING DISPUTES WITH INDEPENDENT POWER PRODUCERS ARE NOT LIKELY ASSISTING CDE'S EFFORTS TO ATTRACT FRESH INVESTMENT. DRAWING ON DEPARTMENT GUIDANCE, EB OFF STRESSED TO [(b)(6)] THAT WASHINGTON VIEWED WITH SERIOUS CONCERN THE ACTIONS TAKEN AT THE AES COMPANY'S POWER PLANT. (AN ARMED BRIGADE WAS DISPATCHED TO THE PLANT THE AFTERNOON OF APRIL 24) (REFTELS). [(b)(6)] DOWNPLAYED THE SIGNIFICANCE OF THE INCIDENT, TO WHICH EB OFFICER REITERATED WASHINGTON'S SERIOUS CONCERN, ADDING ALSO AN EXPECTATION THAT COMMERCIAL DISPUTES WOULD NOT BE INAPPROPRIATELY ADDRESSED IN THIS MANNER IN THE FUTURE.
- 4. (C) [(b)(6)] TURNED TO THE SMITH-ENROW DISPUTE, INDICATING IT WAS A SERIOUS PROBLEM. EB OFF WELCOMED

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CDE'S GOOD FAITH EFFORT TO ARBITRATE THE SMITH-ENRON DISPUTE IN THE INTERNATIONAL CHAMBER OF COMMERCE FORA (A PROCESS NOW COMPLETED, ALTHOUGH YET MITHOUT FINAL RULING) AND NOTED THAT THIS TYPE OF DISPUTE RESOLUTION SENDS A POSITIVE SIGNAL TO POTENTIAL FOREIGN INVESTORS.

[(b)(6)] AGREED, APPRECIATED THIS OBSERVATION, BUT LAMENTED ADDITIONAL PROBLEMS WITH SMITH-ENRON. BE OFFICER STRESSED THE WORLD BANK/IFC BROKERED MEGOTIATIONS BETWEEN SMITH-ENRON AND CDE (THE PLANT IS IFC FINANCED) PROVIDE AN EXCELLENT OPPORTUNITY TO RESOLVE OUTSTANDING ISSUES AND ENCOURAGED CDE TO ENGAGE FULLY IN THESE TALKS.

[(b)(6)] AGREED AND INDICATED THE SECOND ROUND OF SUCH TALKS MOULD TAKE PLACE "MUY PRONTO".

5. (C) NOTE: IN A MAY 22 TELCON, [(b)(1)]

- 6. (U) WITH [(b)(6)] EB OFF TURNED TO THE SUBJECT OF HEMISPHERIC ENERGY COOPERATION, NOTING HOW COUNTRIES IN THE HEMISPHERE ARE NOW ENGAGED IN A FRUITFUL DIALOGUE ON ENERGY UNDER THE SUMMIT OF THE AMERICAS PROCESS. EB OFF NOTED THAT GODR PARTICIPATION IN THIS PROCESS IS WELCOME AND MAY BE TIMELY GIVEN ITS EFFORTS TO PRIVATIZE CDE. EB OFF TOLD [(b)(6)] HE NEXT MEETING OF GOVERNMENTAL REPRESENTATIVES OF THE HEMISPHERIC ENERGY PROCESS WOULD BE IN TRINIDAD IN JUNE AND NOTED THAT A GOOR REP WILL BE INVITED TO TAKE PART. [(b)(6)] ASKED TO BE KEPT INFORMED ON THE SUBJECT.
- 7. (C) COMMENT: HOPEFULLY, [(b)(6)] WILL BRING BACK TO HIS BOSS AT CDE THE MESSAGE, ONCE AGAIN, THAT THE AES INCIDENT DID NOT GO UNNOTICED IN WASHINGTON. AFTER HIS PANEL PRESENTATIONS, THERE WERE NO QUESTIONS FROM THE FLOOR DIRECTED AT [(b)(6)] ONE POWER DEVELOPER TOLD EBOFF THAT HE WAS VERY DISAPPOINTED WITH THE TERMS OF THE CDE PRIVITIZATION AND, ALTHOUGH HE WAS UNAWARE OF THE RAGING INVESTMENT DISPUTES IN THE POWER SECTOR, HIS COMPANY HAD ALREADY DECIDED TO LOOK ELSEWHERE. END COMMENT.

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MID=199812181681

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CAVEAT (S) =

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ACTION = [TRS]EPD (1) . GI (1) . IBRD (1) . IDB (1) . IDC (1) . IDD (1) . INL.41)

QC (1) . SEN (-) . UO (1)

CRC = 67D9

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FM AMEMBASSY SANTO DOMINGO

TO RUEHC/SECSTATE WASHDC IMMEDIATE 9952

INFO RUEHPU/AMEMBASSY PORT AU PRINCE 8775

RUCPBOC/USBOC WASHBC

C O N F I D E N T I A L SECTION B1 OF B2 SANTO DOMINGO BB2157

USDOC FOR 3134/USFCS/010/WH/RD

USDOC FOR 4322/ITA/IEP/WH/OMCB/SIEGELMAN

E.O. 12958: DECL: 84/24/2993

TAGS: ENRG, DR

SUBJECT: SMITH-ENRON: MEETING WITH PRESIDENT

FERNANDEZ IS POSITIVE/AFTERMATH ISN'T

REF: SANTO DOMINGO 1898 AND PREVIOUS

(U) CLASSIFIED BY LINDA E. WATT, CHARGE D'AFFAIRES A. I.; REASON: 1.5 (D).

1. (C) SUMMARY: REPRESENTATIVES OF SMITH-ENRON AND ENRON INTERNATIONAL CALLED ON PRESIDENT FERNANDEZ APRIL 23. THEY TOLD THE PRESIDENT THE PENALTIES CDE IS NOW ASSESSING AGAINST SMITH-ENRON FOR PRODUCTION BELOW THE RATED CAPACITY OF THE PLANT ARE [(b)(4)] DISCUSSED THE ON-GOING CONTRACT NEGOTIATIONS, URGING THAT THERE BE SOME CONTINUITY IN THE CDE NEGOTIATING COMMISSION. THE PRESIDENT DIRECTED PRESENT AND FORMER TO SERVE ON THE COMMISSION AND WAS SYMPATHETIC TO THE RESUMPTION OF NEGOTIATIONS ON THE BASIS OF THE LAST DOCUMENT TABLED. SMITH-ENROW RECEIVED A PAYMENT ON MAY 1 AFTER ANOTHER WEEK OF ROADBLOCKS THROWN UP BY CDE. CDE HAS ALSO PROPOSED THAT THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION BROKERED-TALKS RESUME [(b)(4)]

2. (C) [(b)(6)]

CALLED ON PRESIDENT LEONEL FERNANDEZ ON APRIL 23. THE PRESIDENT WAS ACCOMPANIED BY CURRENT COE ADMINISTRATOR RHADAMES SEGURA AND FORMER ADMINISTRATOR, NOW TECHNICAL SECRETARY, TEMISTOCLES

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BRIEFED THE CHARGE IMMEDIATELY FOLLOWING THEIR MEETING WITH THE PRESIDENT.

[(b)(4), (b)(6)]

MONTAS. [(b)(6)]

CONTRACT PENALTIES

4. (CT(b)(6) OLD THE PRESIDENT ENRON BELIEVES THE PENALTY ASSESSED BY CDE FOR PRODUCTION BELOW RATED CAPACITY (THE SO-CALLED "DOUBLE CLIP.") IS [(b)(4)] THE PRESIDENT SEEMED SYMPATHETIC TO THIS

ARGUMENT AND INFORMED [(b)(6)] THE MONEY IS IN THE BANK TO MAKE THEM A PÄŸNEŃT. ŚĒGURA SAID HE WOULD CONSIDER SUSPENDING THE PENALTY ON FUTURE INVOICES BECAUSE OF IMPROVED PLANT OPERATIONS.

[(b)(1), (b)(4)]

CONTRACT TALKS

5. (C) WITH REFERENCE TO THE TALKS BROKERED BY THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION (IFC). [(b)(4%) GRMED THE PRESIDENT THAT ENRON WILL MEGOTIATE ON THE BASIS OF A DRAFT MOU TABLED BY THE CDE BOARD ON DECEMBER 24, 1997. ENRON WILL NOT RETURN TO "GROUND ZERO" AS PROPOSED BY CDE. THE PRESIDENT REMARKED THAT THE ORIGINAL CONTRACT WAS VERY FAVORABLE TO SMITH-ENRON. [(b)(6)] SPONDED THAT ENRON HAD MADE A NUMBER OF IMPORTANT CONCESSIONS TO MAKE IT MORE BALANCED IN THE 1997 MEGOTIATIONS. [(b)(6) SO SUGGESTED TO THE PRESIDENT THAT IT WOULD BE HELPFOL IF THERE WERE SOME CONTINUITY IN THE COE MEGOTIATING COMMITTEE (NOTE: THE ENTIRE CDE BOARD. WITH THE EXCEPTION OF BOARD PRESIDENT CELSO MARRANZINI. WAS REPLACED THREE WEEKS AGO.

[(b)(1), (b)(6)]

PRESIDENT

FERNANDEZ AGREED THERE SHOULD BE CONTINUITY ON THE NEGOTIATING COMMITTEE AND INSTRUCTED [(b)(1)] THAT THEY SHOULD BOTH PARTICIPATE. HE ALSO INSTRUCTED THAT THE TALKS RESUME ON THE BASIS THEY WERE LEFT IN DECEMBER 1997.

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[(b)(4), (b)(6)]

[(b)(4), (b)(6)]

CONFIDENTIAL SECTION 82 OF 82 SANTO DOMINGO 882157

USDOC FOR 3134/USFCS/OIO/WH/RD USDOC FOR 4322/ITA/IEP/WH/ONCB/SIEGELMAN

E.O. 12958: DECL: 84/24/2883 TAGS: ENRG. DR

SUBJECT: SMITH-ENRON: MEETING WITH PRESIDENT

FERNANDEZ IS POSITIVE/AFTERMATH ISN'T

REF: SANTO DOMINGO 1898 AND PREVIOUS

[(b)(4)]

GETTING PAID

[(b)(4), (b)(6)]

COMMENT

11. (C) THE EVENTS OF THE WEEK SINCE THE MEETING WITH PRESIDENT FERNANDEZ REPORTED IN THIS MESSAGE, SERVE TO FURTHER UNDERLINE OUR CONCERN THAT

[(b)(1)]

CDE HAS CONTINUED TO DRAG ITS FEET ON PAYING SMITH-ENRON AND NOW SEEMS TO BE TAKING A POSITION ON THE TALKS WHICH SMITH-ENRON MILL MOT

ACCEPT. WATT

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# ................... CONFIDENTIAL

# DEPT TREASURY COMCEN

PH 622-2222 RM 1121/MT

PAGE 01 OF 03

MID=199889681535

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CAVEAT (S) =

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ACTION = [TRS]EPD (1) + GI (1) + IBRD (1) + IDB (1) + IDC (1) + IDD (1) + IML 41) ITF (1) . IT I (1) . OIMF (1) . QC (1) . SEN (-) . UO (1)

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FM AMEMBASSY SANTO DOMINGO

TO RUEHC/SECSTATE WASHDC IMMEDIATE 9587

INFO RUEHPU/AMEMBASSY PORT AU PRINCE 8714

CONFIDENTIAL SECTION 81 OF 82 SANTO DOMINGO 881714

CORRECTED COPY - CORRECT DECL

E.O. 12958: DECL: 84/86/2883

TAGS: ENRG, DR

SUBJECT: ELECTRICITY WRAP-UP: PRIVATIZATION AND

RELATED ISSUES

REF: SANTO DOMINGO 1872

(U) CLASSIFIED BY LINDA E. WATT. CHARGE D'AFFAIRES

A. I.; REASON: 1.5 (D).

1. (C) SUMMARY: POTENTIAL BIDDERS IN THE FIRST PRIVATIZATION OF A DOMINICAN STATE-OWNED ENTITY, THE ELECTRICITY COMPANY, PRESENTED THEIR PRE-QUALIFICATION DOCUMENTS ON MARCH 26. THE BIDDERS WILL BE VYING FOR FIVE PIECES OF A VERY TROUBLED PRODUCT. CDE'S OWN GENERATORS AND THE NATIONAL DISTRIBUTION NETWORK ARE IN POOR REPAIR WHILE ITS RELATIONSHIP WITH THE PRIMARILY U.S. INDEPENDENT POWER PRODUCERS (IPPS) IS ALSO TROUBLED, CDE'S DEBT TO THE IPPS IS BELIEVED TO BE APPROXIMATELY [(b)(1)] END SUMMARY.

#### CDE PRIVATIZATION PROCESS FINALLY BEGINS ......

2. (U) ON MARCH 26, PRESIDENT FERNANDEZ PRESIDED OVER A CEREMONY IN WHICH THE POTENTIAL BIDDERS IN THE PRIVATIZATION OR "CAPITALIZATION" OF THE STATE-OWNED ELECTRICITY COMPANY, COMPANIA DOMINICANA DE ELECTRICIDAD (CDE), PRESENTED THEIR PRE-QUALIFICATION DOCUMENTS. EIGHTEEN OF 45 COMPANIES THAT SOLICITED BID PACKAGES SUBMITTED DOCUMENTS. THE COMPANIES/CONSORTIA PRESENTING THEIR CREDENTIALS INCLUDED:

ELECTRICITE DE FRANCE ENRON CARIBE

CHILGENER AMOCO POWER DIVISION CO., LTD. I BERDROLA UNION FENOSA SAUR INTERNATIONAL COASTAL TECHNOLOGY CARIB POWER DIVISION EMPRESAS EMEL/PP&L GLOBAL ENDESA INTERNATIONAL CONSTELLATION POWER INTERNATIONAL INV. SOUTHERN ENERGY, INC. AES DISTRIBUCION DOMINICANA TRACTEBEL, S. A. ABB ENERGY VENTURES CORPORACION EDC. SACA CONSORCIO IES-LUZ FUERZA

THREE OF THE U.S. COMPANIES ALREADY PRODUCING POWER IN THE DOMINICAN REPUBLIC (I.E. COASTAL TECHNOLOGY, AES DISTRIBUTION DOMINICANA, AND ENRON -- ALBEIT A DIFFERENT PART OF THE ENRON CORPORATE STRUCTURE) PRESENTED THEIR CREDENTIALS AS DID AT LEAST THREE OTHER U.S. FIRMS.

- 3. (U) THE PRE-QUALIFICATION PHASE IS SLATED TO END ON APRIL 15 WHEN THE CREP (THE COMISSION DE REFORMA DE LA EMPRESA PUBLICA) IS DUE TO PUBLISH THE LIST OF PRE-QUALIFIERS. ALTHOUGH THE TIMING FOR SUCCESSIVE PHASES HAS NOT BEEN SPELLED OUT CLEARLY, POTENTIAL BIDDERS NOW EXPECT TO PRESENT THEIR OFFERS IN JUNE OR JULY WITH THE ASSESSMENT PROCESS LIKELY TO BE FINISHED IN AUGUST.
- 4. (U) AT THE END OF THE PRIVATIZATION PROCESS, THE PUBLIC ELECTRICITY SECTOR WILL BE BROKEN INTO SEVEN COMPANIES, TWO OF WHICH -- TRANSMISSION AND HYDROGENERATION -- WILL REMAIN IN THE HANDS OF THE GOOR. IT IS ANTICIPATED THAT FIVE DIFFERENT BIDDERS WILL SUCCESSFULLY BID ON THREE DISTRIBUTION COMPANIES (NORTHERN, SOUTHERN AND EASTERN DISTRICTS) AND TWO GENERATION COMPANIES (THE CDE-RUN HAIMA AND ITABO GENERATORS WILL BE SPUN OFF).

REGULATORY STRUCTURE: SUPERINTENDENCIA DE ELECTRICIDAD ......

5. (U) ONE OF THE IMMEDIATE OUTCOMES OF THE RECENT MATIONAL DIALOGUE WAS PRESIDENTIAL DECREE NO. 118-98 ESTABLISHING A NATIONAL SUPERINTENDENT OF ELECTRICITY (SUPERINTENDENCIA DE ELECTRICIDAD) WITHIN THE SECRETARIAT OF INDUSTRY AND COMMERCE. THE PROMULGATION OF THIS DECREE ESTABLISHING A REGULATORY STRUCTURE FOR THE SECTOR HAS SERVED TO ALLAY SOME OF THE ANXIETY OF WOULD-BE INVESTORS ABOUT THE GOVERNMENT'S INABILITY TO

# CONFIDENTIAL

### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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WIN APPROVAL OF THE ELECTRICITY LAW FROM THE CONGRESS.
ONE POTENTIAL BIDDER COMMENTED TO ECONOFF, "HOW CAN WE
BID IF WE DON'T KNOW HOW THE PRICE OF THE ELECTRICITY —
IN THE SYSTEM WILL BE CALCULATED, WHAT THE CONDITIONS
WILL BE FOR SELLING TO CUSTOMERS, AND MOST IMPORTANTLY
IN THE CURRENT DOMINICAN CONTEXT) WHAT KIND OF SUPPORT
THE POTENTIAL INVESTOR WILL RECEIVE FROM THE GOVERNMENT
IF IT MOVES TO CUT OFF SERVICE."

C O N F | D E N T | A L SECTION 82 OF 82 SANTO DOMINGO 881714

CORRECTED COPY - CORRECT DECL

E.O. 12958: DECL: 84/86/2883
TAGS: EHRG: DR
SUBJECT: ELECTRICITY WRAP-UP: PRIVATIZATION AND
RELATED ISSUES

REF: SANTO DOMINGO 1872

# A DESIRABLE PRODUCT?

6. (U) EVENTS SINCE EARLY FEBRUARY HAVE SERVED TO UNDERLINE THE KNIFE EDGE ON WHICH CDE NOW OPERATES. SEVERE STORM ON FEBRUARY 4 -- BY COINCIDENCE THE SAME DAY PRESIDENT FERNANDEZ WAS SCHEDULED TO ATTEND THE CEREMONIAL OFF-LOADING OF THE FIRST FOUR OF THE FIVE 34MW GENERATORS PURCHASED FROM GEC ALSTROM (FRANCE) --CAUSED EXTENSIVE DAMAGE TO THE NATIONAL GRID. AN ENERGY SECTOR CONTACT COMMENTED TO ECONOFF IN THE STORM AFTERMATH THAT THE GRID IS SO UNSTABLE THAT "JUST HUMIDITY, " MUCH LESS SEVERE WIND AND RAIN, CAN CAUSE A CASCADE AFFECTING THE ENTIRE GRID. IT THEN TAKES CDE A FULL DAY TO RE-BALANCE THE SYSTEM. THIS INSTABILITY IN THE NATIONAL GRID, ON TOP OF A DROUGHT-INDUCED DECREASE IN THE GENERATION OF HYDROPOWER AND PRODUCTION PROBLEMS ON THE PART OF INDEPENDENT POWER PRODUCERS SMITH-ENRON AND AES, HAVE SERVED TO INCREASE THE DAILY BLACKOUTS SUFFERED THROUGHOUT THE COUNTRY. THESE PROBLEMS ARE COMPOUNDED BY CDE'S WELL-KNOWN ADMINISTRATIVE SHORTCOMINGS: FAILURE TO ADEQUATELY METER THE ELECTRICITY IT SELLS, FAILURE TO COLLECT FROM ITS CUSTOMERS ETC.

7. (U) CDE'S TWO PRINCIPAL PLANTS, ITABO I AND II REQUIRE GENERAL MAINTENANCE THAT COULD LAST EIGHT MONTHS OR MORE. THE TWO PLANTS EACH HAVE AN INSTALLED CAPACITY OF 125MW BUT ARE CURRENTLY RUNNING AT 88-98MW. ITABO I HASN'I BEEN OVERHAULED SINCE 1991; ITABO II SINCE 1994. THE FIVE UNITS AT HAINA TELL MUCH THE SAME STORY: THE UNITS HAVE A TOTAL INSTALLED CAPACITY OF 368MW BUT ARE NOW RUNNING AT A TOTAL OF APPROXIMATELY

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188HW. ONE 84MW UNIT IS REPORTEDLY BEYOND REPAIR.

8. (U) THE GODR IS PINNING ITS HOPES FOR AN IMPROVEMENT IN THE ELECTRICITY SITUATION ON THE FRENCH 34MM GENERATORS. TWO OF WHICH ARE NOW EXPECTED TO BE INSTALLED IN SAN PEDRO DE MACORIS IN ADVANCE OF THE MAY ELECTIONS. INDUSTRY SOURCES, HOWEVER, ARE HIGHLY SKEPTICAL, SAYING THAT THE FIX IS LIKELY TO A SHORT TERM ONE. THEY WARN THAT THE INCREASED FUEL BILLS FOR THE NEW GENERATORS WILL SIMPLY INCREASE CDE'S COSTS WHILE THE RISK THAT THEY WILL BE RUN INTO THE GROUND IN SHORT ORDER THROUGH LACK OF MAINTENANCE IS HIGH.

CURRENT STATE OF THE US IPP'S: AES JOINS SMITH-ENRON IN THE SCAPEGOAT SWEEPSTAKES

9. (C) AES DOMINICAN POWER PARTHERS JOINED SMITH-ENRON ON THE GOVERNMENT'S BLACK LIST WHEN BOTH ITS GENERATORS FAILED IN FEBRUARY. THE GOOR FOCUS WAS SOLELY IN GETTING THE PLANT BACK INTO OPERATION AS QUICKLY AS POSSIBLE AND KEEPING IT GOING THROUGH THE MAY ELECTIONS WITH LITTLE ACKNOWLEDGEMENT OF THE TECHNICAL CAUSE OF THE FAILURE. BOTH UNITS WERE BROUGHT BACK ON LINE AS OF MARCH 26. AES, HOWEVER, ALSO INFORMED ECONOFF THAT THE PAYMENT BACKLOG WITH CDE IS AGAIN NEARING THE CRITICAL LEVEL. ANOTHER U.S. IPP. COASTAL POWER, HAS ALSO APPROACHED THE EMBASSY WITH THE INFORMATION THAT ALTHOUGH IT HAS BEEN A GOOD SOLDIER -- GENERATING ELECTRICITY AT CDE DEMAND AND KEEPING A LOW PROFILE -- CDE HAS RESPONDED BY RUNNING UP OVER [(b)(1)] IN UNPAID BILLS.

#### COMMENT

18. (C) WHEN ASKED WHY THEY WOULD CONTINUE TO CONSIDER INVESTING IN THE DR IN THE FACE OF CDE'S PAYMENTS RECORD, THE U.S. IPPS UNIVERSALLY RESPOND THAT THEY SEE OPPORTUNITY IN THE SECTOR. THEY ACKNOWLEDGE, HOWEVER, THAT THE ABILITY OF CDE TO MAKE ANY KIND OF LUMP SUM PAYMENT ON ITS DEBT PROBABLY IN THE RANGE OF [(b)(1)] IS DEPENDENT ON

PRIVATIZATION. ONE COMMENTED THAT, "WITHOUT PRIVATIZATION, IT MAKES NO SENSE TO INVEST HERE." THE FEBRUARY 27 CHANGE IN LEADERSHIP AT CDE HAS ADDED AN ADDITIONAL ELEMENT OF DISQUIET TO THIS ASSESSMENT: SOURCES IN THE U.S. IPPS STATE THAT [(b)(1)] OPPOSES THE PRIVATIZATION OF CDE. WE CAN ONLY HOPE THAT WITH THE PRE-QUALIFICATION PROCESS HOVING ALONG, IT IS TOO LATE TO DERAIL IT. WATT

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# CONFIDENTIAL DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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### CONFIDENTIAL

# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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MID=199887182218

830635 12/19322

CAVEAT (S) = HANDLE VIA

ACTION = (TRSIGI (1) . IBRD (1) . IDB (1) . IDC (1) . IDD (1) . INL (1) . ITT (1) ...

QC (1) , SEN (-)

CRC = 4C89

OO RUEATRS

DE RUEHDG #1872/81 8711882

ZNY CCCCC ZZH

0 121882Z MAR 98

FM AMEMBASSY SANTO DOMINGO

TO RUEHC/SECSTATE WASHDC IMMEDIATE 9886

RUCPDOC/USDOC WASHDC

INFO RUEHPU/AMEMBASSY PORT AU PRINCE 8647

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C O N F I D E N T I A L SECTION 81 OF 83 SANTO DOMINGO 881872

E.O. 12958: DECL: 83/12/2883

TAGS: ENRG, DR

SUBJECT: SMITH-ENRON: WORLD BANK TO PLAY A ROLE

CLASSIFIED BY CHARGE D'AFFAIRES A.I. LINDA E. WATT;

REASON: 1.5 (D).

1. (C) SUMMARY: IN HIS MARCH 9 VISIT TO SANTO DOMINGO WORLD BANK PRESIDENT WOLFENSOHN COMMITTED TO PLAYING A ROLE IN RESOLVING THE SMITH-ENRON/CORPORATION DOMINICANA DE ELECTRICIDAD (CDE) DISPUTE, WORLD BANKCHAIRED MEDIATION TALKS SHOULD TAKE PLACE WITHIN THE NEXT 48 DAYS BEFORE THE INTERNATIONAL ARBITRATION PANEL NOW CONSIDERING THE DISPUTE HANDS DOWN ITS DECISION.

[(b)(4)]

THE PAYMENT HAS NOT YET BEEN RECEIVED BUT, WITH THE INTERVENTION THIS WEEK OF WOLFENSOHN, SMITH-ENRON EXECUTIVE DIRECTOR KEVIN MANNING IS OPTIMISTIC THAT CDE WILL MAKE THE PAYMENT. END SUMMARY.

#### WORLD BANK TO MEDIATE

2. (C) WORLD BANK PRESIDENT WOLFENSOHN VISITED SANTO DOMINGO ON MONDAY, MARCH 9. IN HIS MEETING WITH MOLFENSOHN, PRESIDENT FERNANDEZ APPEALED FOR HELP WITH THE SMITH-ENRON (S-E) "PROBLEM." WOLFENSOHN REPORTEDLY RESPONDED THAT THE DISPUTE BETWEEN CDE AND S-E IS A COMPLEX ISSUE WHICH WILL NOT BE SOLVED OVERNIGHT BUT THAT HE WOULD PERSONALLY TRY TO MEDIATE A RESOLUTION. PRESIDENT FERNANDEZ REPORTEDLY UNDERLINED TO WOLFENSOHN THAT IT IS IMPORTANT THAT THE CONTRACT "LOOK FAIR" -(NOTE: I.E., MAXING CHAMGES THAT WILL PLAY WELL WITH

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THE DOMINICAN PUBLIC). ALTHOUGH NOTHING HAS BEEN SET, [(b)(6)]

BELIEVES WOLFENSOHN WILL CHAIR A FIRST MEDIATION MEETING IN WASHINGTOM. TO ADVANCE THE PROCESS, TWO IFC OFFICIALS REMAINED IN SANTO DOMINGO AFTER WOLFENSOHN'S DEPARTURE. THE OFFICIALS MET WITH S-E ON TUESDAY, MARCH 18, AND WERE SCHEDULED TO MEET WITH CDE OFFICIALS AND MEMBERS OF ITS BOARD ON MARCH 11. THE IFC REPRESENTATIVES WERE REPORTEDLY TASKED WITH ESTABLISHING THE OPENING POSITIONS OF BOTH SIDES PRIOR TO HOLDING A PREPARATORY MEETING IN SANTO DOMINGO BEFORE THE FIRST OFFICIAL MEETING IN WASHINGTON CHAIRED BY WOLFENSOHN.

#### ARBITRATION PANEL

3. THE DIFFERENCES ON THE CONTRACTUAL INTERPRETATION BETWEEN S-E AND CDE ARE NOW BEING CLARIFIED IN A COURT OF INTERNATIONAL ARBITRATION IN MEXICO CITY. THE AMOUNT INVOLVED AMOUNTS TO APPROXIMATELY US\$48 MILLION. THE ARBITRATION PANEL CONVENED IN MID-FEBRUARY AND WILL HOLD ITS LAST MEETING ON MARCH 17. ITS DECISION WILL BE HANDED DOWN 38 DAYS AFTER THAT DATE.

SMITH-ENRON'S LATEST CRISIS

[(b)(4), (b)(6)]

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[(b)(4), (b)(6)]

[(b)(4)]

C O N F | D E N T | A L SECTION B2 OF B3 SANTO DOMINGO BB1872

E.O. 12958: DECL: 83/12/2883 TAGS: ENRG: DR

SUBJECT: SMITH-ENRON: WORLD BANK TO PLAY A ROLE

[(b)(4), (b)(6)]

AS NOTED ABOVE, FOLLOWING THE MEETING BETWEEN MOLFENSOHN AND PRESIDENT FERNANDEZ, TWO IFC OFFICIALS REMAINED IN SANTO DOMINGO TO INVESTIGATE THE DISPUTE. THE IFC REPRESENTATIVES MET WITH S-E ON TUESDAY, MARCH 10, AND WERE SCHEDULED TO MEET WITH CDE AND US SOARD ON MARCH 11. [(b)(4), (b)(6)]

18. CC:[(b)(6)]REPORTED THAT SMITH HIMSELF WILL ARRIVE IN THE DR ON MARCH 14. ENROW MANAGERS WILL ALSO VISIT THE DR. THE EMBASSY HAS ASKED [(b)(6)] KEEP IN CLOSE TOUCH AND HAS INDICATED ITS WILLINGNESS TO MEET WITH THE COMPANY OFFICIALS.

# COMMENT

11. (C) THE WORLD BANK HAS UNDOUBTEDLY TAKEN ON THIS PRICKLY PROBLEM BECAUSE OF THE IFC'S INVOLVEMENT IN FINANCING THE PROJECT. A MEDIATION RESULT MAY BE MORE ATTRACTIVE TO THE GOOR BECAUSE OF THE LOSS OF FACE THAT YET MAY RESULT FROM A DECISION BY THE ARBITRATION PANEL. MEDIA REPORTING ON THE START OF THE ARBITRATION PROCESS WAS VITUPERATIVE WHICH UNDERLINES THE DIFFICULTIES THE GOOR MAY FIND ITSELF IN IN HAVING SO LAMBASTED THE S-E CONTRACT THAT IT BECOMES DIFFICULT TO ADMIT TO THE DOMINICAN PUBLIC THAT THE CONTRACT IS NOT SO FAR REMOVED FROM THE INDUSTRY STANDARD. MORE DANGEROUSLY, CDE HAS MADE SUCH A WHIPPING BOY OUT OF S-E THAT IT BECOMES QUESTIONABLE WHETHER CERTAIN CDE EMPLOYEES MIGHT HAVE MORE INVESTED IN SEEING NO SUCCESSFUL RESOLUTION.

12. (C) THE TIMING OF THIS PHASE OF THE LONG-STANDING DISPUTE MAY ENDANGER ANOTHER PROJECT IMPORTANT TO U.S. INTERESTS. [(b)(4)]

ENRON HAS BIGGER PLANS FOR THE DR?

[(b)(4), (b)(6)]

NEXT STEPS

[(b)(4)]

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# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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[(b)(4)]

C O N F I D E N T I A L SECTION 83 OF 83 SANTO DOMINGO 881872

E.O. 12958: DECL: 83/12/2883

TAGS: ENRG, DR

SUBJECT: SMITH-ENRON: WORLD BANK TO PLAY A ROLE

[(b)(1), (b)(4)]

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# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE Ø1

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MID=199883882869

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CAVEAT (S) = HANDLE VIA ACTION = [TRS]BOI (1), EPD (1), FCEN (1), GI (1), IADB (1), IBRD (1), 4BB-(1) IDC (1) . IMB (1) . IMF (1) . IMA (1) . IML (1) . ITAS (1) . ITF (1) . ITN (1) . OIMF (1) QC (1) , SEN (-) , XAA (1) , XL (1) CRC = F43E

RR RUEATRS DE RUEHDG #8411 8381916 -ZNY CCCCC ZZH R 301916Z JAN 98 FM AMEMBASSY SANTO DOMINGO TO RUEHC/SECSTATE WASHDC 8547 INFO RUEHPU/AMEMBASSY PORT AU PRINCE 8588 CONFIDENTIAL SANTO DOMINGO 888411

E.O. 12958: DECL: 01/23/2003 TAGS: ECON EFIN ENGY KTEX DR SUBJECT: CHARGE MEETS FINANCE SECRETARY TORIBIO

(U) CLASSIFIED BY LINDA E. WATT, CHARGE D'AFFAIRES A. I.; REASON: 1.5D.

1. (U) CHARGE MADE A "GET ACQUAINTED" CALL ON SECRETARY OF FINANCE DANIEL TORIBIO JANUARY 14. THE FOLLOWING REPORTS ON THE ISSUES TOUCHED ON IN THAT CONVERSATION.

#### ECONOMIC REFORM

2. (C) CHARGE RAISED THE PROSPECTS FOR CONTINUED PROGRESS ON THE ECONOMIC REFORM PACKAGE ORIGINALLY SUBMITTED BY THE FERNANDEZ ADMINISTRATION TO THE CONGRESS IN CONJUNCTION WITH ITS 1997 BUDGET. TORIBIO RESPONDED THAT THE GOVERNMENT IS HOPING FOR BETTER SUPPORT FOLLOWING THE MAY CONGRESSIONAL ELECTIONS. HE ALSO, HOWEVER, UNDERLINED THE IMPORTANCE OF THE ON-GOING GODR FREE TRADE AREA MEGOTIATIONS WITH CENTRAL AMERICA AND CARICOM SAYING THAT THE PRIVATE SECTOR WILL WANT A LEVEL PLAYING FIELD WITH THEIR CENTRAL AMERICAN COUNTERPARTS WHICH WILL IN TURN LEAD THEM TO PUT PRESSURE ON THE CONGRESS FOR PROGRESS ON THE REFORM PACKAGE (ESPECIALLY THE TARIFF REFORM PROVISIONS). TORIBIO NOTED THAT FREE TRADE ZONE OPERATORS ARE PARTICULARLY ANXIOUS TO SELL TO CENTRAL AMERICA WHILE DOMESTIC PRODUCERS CLAIM THEY WILL HAVE AN UNFAIR ADVANTAGE. CHARGE RESPONDED THAT THIS PROBLEM MAY ALREADY HAVE BEEN FACED BY THE CENTRAL AMERICANS, WHO MIGHT BE ABLE TO OFFER SUGGESTIONS ON HOW THE ISSUE HAS BEEN HANDLED TO DATE.

.3. (U) WHEN CHARGE QUESTIONED HOW THE GODR WILL MAKE UP

FOR REVENUES LOST THROUGH THE PROPOSED CHANGES IN THE CUSTOMS REGIME, TORIBIO RESPONDED THAT THE GOVERNMENT BELIEVES IT WILL MAKE THEM UP THROUGH THE PROPOSED INCREASE OF THE ITBIS TAX (LOCAL VAT TAX) FROM 8 TO 12 PERCENT AND AN ACCOMPANYING REDUCTION IN THE NUMBER OF EXEMPTIONS NOW ALLOWED UNDER THE TAX CODE.

#### DEBT

4. (C) TORIBIO RAISED THE GODR'S NOW FAMILIAR COMPLAINT ABOUT THE BURDN OF FOREIGN DEBT PAYMENTS. HE ADMITTED TO CHARGE, HOWEVER, THAT THIS WAS MORE A "PHILOSOPHICAL" ISSUE WITH THE USG AND THAT THE GODR'S COMPLAINTS WERE MORE AIMED AT THE IFI'S.

#### SMITH ENROW

5. (C) TORIBIO ALSO RAISED THE ISSUE OF GODR DISSATISFACTION WITH THE PERFORMANCE OF INDEPENDENT POWER PRODUCER SMITH ENRON (A 185 MEGAVATT COMBINED CYCLE PLANT IN PUERTO PLATA IS A JOINT VENTURE BETWEEN ENRON CORP. AND SMITH COGENERATION) UNDER THE TERMS OF ITS CONTRACT WITH THE GODR CNOTE: SINCE IT STARTED OPERATION, THE PLANT HAS EXPERIENCED CONTINUING DIFFICULTIES IN MEETING ITS CONTRACTUAL OBLIGATIONS REGARDING MINIMUM POWER GENERATION LEVELS). TORIBIO COMMENTED THAT THE GOOR HAD ASKED THE INTERNATIONAL FINANCE CORPORATION (IFC) "TO FOLLOW THIS PROBLEM." TORIBIO ALSO SPECULATED THAT ENRON WOULD NOT WANT TO HAVE ITS INSTITUTIONAL IMAGE BESMIRCHED BY THE ON-GOING PROBLEMS WITH THE PLANT (NOTE: TORIBIO'S COMMENT IS IN LINE WITH A LETTER DATED JANUARY 6 PASSED TO THE EMBASSY AND FAXED TO EB/ESC/IEP/EPC AND ARA/CAR IN WHICH CDE REQUESTS A MEETING WITH SENIOR ENRON MANAGEMENT CONCERNING THE CONTINUING PROBLEMS WITH THE PLANT). WATT

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### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE 01

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DOMINICAN POWER PARTNERS YET TO BE PAID

[(b)(4), (b)(6)]

97 9112 17/13292

CAVEAT (S) =

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ACTION = (TRS) (INL (L) , ITAS (L) , QC (L) , SEN (-) , XAA (L) , XL I (L)

CRC = 9194

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OD RUEATRS

DE RUEHDG #6721 3511212

ZNY CCCCC ZZH

D 1712122 DEC 97

FM AMEMBASSY SANTO DOMINGO

TO RUEHC/SECSTATE WASHDC IMMEDIATE 8122

INFO RUEHPU/AMEMBASSY PORT AU PRINCE Ø534

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C D N F I D E N T I A L SANTO DOMINGO 806721

E.O. 12958: DECL: 12/16/2002 TAGS: ENRG, DR

SUBJECT: STATUS OF CLAIMS ON CDE

REF: A. SANTO DOMINGO 6627, B. SANTO DOMINGO 6637

(U) CLASSIFIED BY: LINDA WATT, CHARGE D'AFFAIRES
 A.I.; REASON: 1.5 (D).

(c) SUMMARY: [(b)(4), (b)(6)]

ONE DOWN: SMITH-ENRON

2.[(b)(6)] CONFIRMED RECEIPT OF PAYMENT IN THE AMOUNT OF \$15.5 MILLION FROM COE BY DAY'S END DECEMBER 12. [(b)(6)] INFORMED ECONOFF THE COMPANY EXPECTS TO FINISH A BOILER UPGRADE THIS WEEK AND INCREASE POWER GENERATION FROM 145 TO 188 MEGAWATTS. [(b)(6)]SAID HE IS CONCERNED THAT THE PRESS CONTINUES TO REPORT COMMENTS BY A NUMBER OF LOW RANKING GODR OFFICIALS IN FAVOR OF NATIONALIZING HIS PLANT -- THE LATEST IS A DECEMBER 12 REPORT IN LEADING DAILY LISTIN DIARIO QUOTING A SUB-DIRECTOR GENERAL OF TAXES AS SAYING THE COMPANY SHOULD BE MATIONALIZED WHILE THE BALAGUER-ADMINISTRATION OFFICIALS WHO SIGNED THE CONTRACT WITH SMITH-ENRON SHOULD BE "SUBMITTED TO JUSTICE FOR BETRAYING THE NATION.... ECONOFF REASSURED [(b)(6)]AT SENIOR GOOR OFFICIALS HAD UNDERLINED TO THE EMBASSY THAT THIS WAS NOT THE POLICY OF THE GODR.

COMMENT

5. (C) ALTHOUGH DPP'S CLAIM AGAINST CDE HAS NOT YET HIT THE PRESS, THE WORD IS OUT IN THE ENERGY SECTOR. WHILE SMITH-ENRON CONTINUES TO BE THE MOST CONVENIENT SCAPEGOAT FOR THE ILLS OF THE SECTOR, [(b)(4), (b)(6)]

THE TIMING OF THIS CONFRONTATION IS
UNFORTUNATE -- CDE MAY YET BE ABLE TO CONVINCE
DOMINICANS THEIR CHRISTMAS LIGHTS WERE TURNED OFF BY
VILLAINOUS FOREIGN POWER PRODUCERS. WATT
BT
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9194
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# CONFIDENTIAL

### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE 81

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867877 11/14167 MID=199734581255

867977 11/14167

CAVEAT (S) =

HANDLE VIA

[(b)(4)]

ACTION = (TRS)EPD (1) . (BC (1) . (DD (1) . (NL (1) . (TF (1) . (TI (1) . QC (1) ... SEN (-)

CRC = BBFD

OO RUEATRS DE RUEHDG #6637 3451343 ZNY CCCCC ZZH 0 111343Z DEC 97 FM AMEMBASSY SANTO DOMINGO TO RUEHC/SECSTATE WASHDC IMMEDIATE 8844

INFO RUEHPU/AMEMBASSY PORT AU PRINCE 8515

CONFIDENTIAL SANTO DOMINGO 886637

E.O. 12958: DECL: 12/18/2802

TAGS: ENRG, DR

SUBJECT: ANOTHER CDE CLAIMANT ISSUES SHUTDOWN NOTICE

1. (U) CLASSIFIED BY: EDWIN CUBBISON, CHARGE; REASON: 1.5 (D)

2. (c) [(b)(6)] CORPORATION: OWNER AND OPERATOR THROUGH AES AURORA DOMINICAN POWER PARTNERS (DPP) OF THE 283 MEGANATT LOS MINA POWER PLANT, CONTACTED EMBASSY LATE ON DECEMBER 18 TO INFORM US THAT, FOLLOWING RECEIPT OF A LETTER THIS WEEK FROM ITS FUEL SUPPLIER, SHELL, DPP HAS ALSO FORMALLY NOTIFIED CDE IT WILL SHUT DOWN OPERATIONS IF PAYMENT OF [(b)(4)] .S NOT RECEIVED BY DECEMBER 22.

[(b)(4)]

COMMENT

7. (U) POST HAS FAXED COPIES OF DPP [(b)(6)] LETTER TO ARA/CAR AD EB/ESC/IEP/EPC. THIS DEMAND IS NOT YETPUBLIC IN SANTO DOMINGO. WHERE THE PRESS IS STLL DWELLING ON THE CDE SMITH-ENROW PAYMENT. WE HAVE NO CONFIRMATION THAT THAT PAYMENT HAS BEN RECEIVED. CUBBISON BT

#6637 BBFD

[(b)(4)]

AS NOTED

ABOVE, HOWEVER,

LETTER GIVES CDE UNTIL

DECEMBER 22 TO MAKE THE PAYMENT.

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# CONFIDENTIAL

### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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PAGE Ø1 OF Ø2

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CAVEAT (S) =

HANDLE VIA

ACTION = [TRS]CID (1) , EPD (1) , INL (1) , QC (1) , SEN (-)

CRC = 86AE

OO RUEATRS

DE RUEHDG #6627/81 3442824

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FM AMEMBASSY SANTO DOMINGO

TO RUEHC/SECSTATE WASHDC IMMEDIATE 8834

INFO RUEHPU/AMEMBASSY PORT AU PRINCE Ø511

BT

C O N F I D E N T I A L SECTION 81 OF 82 SANTO DOMINGO 806627

E.O. 12958: DECL: 12/18/2802

TAGS: ENRG, DR

SUBJECT: HOT-HEADED PUBLIC COMMENT AGGRAVATES TENSE

SITUATION OVER CDE SMITH-ENRON PAYMENT

(U) CLASSIFIED BY: EDWIN CUBBISON, CHARGE; REASON:

1.5 (0)

2. (C) SUMMARY: INDEPENDENT POWER PRODUCER SMITH-ENRON COGENERATION LIMITED PARTNERSHIP INFORMED THE CORPORATION DOMINICANA DE ELECTRICIDAD (CDE) ON DECEMBER 2 IT WILL SHUT DOWN OPERATIONS IF IT FAILS TO RECEIVE A [(b)(4)] PAYMENT BY FRIDAY, DECEMBER 12. CDE BÖÄRD PRESIDENT CELSO MARRANZINI SUBSEQUENTLY COMMENTED ON A MORNING TALKSHOW DECEMBER 9 THAT "IF IT DEPENDED ON CELSO MARRANZINI" HE WOULD MILITARIZE THE FACILITY. SENIOR GODR OFFICIALS ASSURED THE EMBASSY THAT THIS STATEMENT DOES NOT REFLECT THE POSITION OF THE GOVERNMENT. COE ADMINISTRATOR MONTAS ALSO INFORMED THE CHARGE CDE WILL PAY SMITH-ENRON ON WEDNESDAY, DECEMBER 18. THIS PROMISE WAS REITERATED IN A PUBLIC STATEMENT RELEASED TO THE PRESS BY CDE TUESDAY EVENING, DECEMBER 9. SMITH-ENRON [(b)(6)] NOTIFY THE EMBASSY WHEN PAYMENT IS RECEIVED. END SUMMARY.

BACKGROUND: SMITH-ENRON-THREATENS TO PULL THE PLUG

3. (U) THE TROUBLED CORPORACION DOMINICANA DE ELECTRICIDAD (CDE) IS REPORTEDLY LAGGING FARTHER AND FARTHER BEHIND IN ITS PAYMENTS TO INDEPENDENT POWER PRODUCERS. WITH FINANCIAL OBLIGATIONS COMING DUE ON MONDAY, DECEMBER 15, SMITH-ENRON INVOKED THE TEN DAY NOTICE PROVISION IN ITS CONTRACT, INFORMING CDE BY LETTER DATED DECEMBER 2 THAT IT MOULD SHUT DOWN OPERATIONS IF IT DID NOT RECEIVE A PAYMENT FOR [(b)(4)]

MID=199734482435 MILLION BY FRIDAY, DECEMBER 12.

CDE BOARD MEMBER ADVOCATES CALLING IN THE MILITARY

4. (C) SMITH-ENRON [(b)(6)]

CONTACTED THE EMBASSY EARLY ON DECEMBER 9 TO INFORM US
THAT CDE BOARD PRESIDENT CELSO MARRANZINI HAD APPEARED
ON A MORNING TALKSHOW AND SAID THAT "IF "IT DEPENDED ON
CELSO MARRANZINI, I WOULD TELL THEM ISMITH-ENROW) TO
TURN OFF THE POWER AND, ON THE 11TH, MILITARIZE IT, AND
GIVE IT TO COE ON THE 12TH." MARRANZINI'S COMMENT WAS
PICKED UP BY AFTERMOON DAILY EL NACIONAL WHICH LED THE
STORY WITH A BANNER HEADLINE "CONEP PRESIDENT FAVORS
CDE MILITARIZING SMITH." [(b)(6)]

[(b)(4), (b)(6)]

6. (C) IMMEDIATELY FOLLOWING THE MEETING WITH [(b)(6)] HARGE AND A/DCM CONTACTED [(b)(6)]

RESPECTIVELY TO DISCUSS MARRANZINI'S COMMENTS. MONTAS INFORMED CHARGE THAT CDE PLANNED TO MAKE THE PAYMENT TO SMITH-ENRON ON MEDNESDAY, DECEMBER 18.[(b)(6)]SO INFORMED HER THAT IT IS NOT THE INTENT OF THE GODR TO TAKE ANY ACTION THAT WOULD BE A DISINCENTIVE TO FOREIGN INVESTMENT. IN CLOSING, (b)(60)MENTED THAT THE ISSUE SHOULD NEVER HAVE GOTTEN INTO THE PRESS IN THE FIRST PLACE. [(b)(6)] INFORMED A/DCM THAT ALTHOUGH HE HAD NOT BEEN INFORMED OF WHAT MARRANZINI HAD SAID, IT WAS NOT THE OFFICIAL POSITION

# CONFIDENTIAL

# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE 82 OF 82 866648 18/21482 MID=199734482435 OF THE GODR. HE SAID HE WOULD IMMEDIATELY CONTACT THE CDE ADMINISTRATOR AND THE PRESS SECRETARY OF THE \*\* ... PRESIDENCY. [(b)(6) TRATED THAT HE AGREED WITH THE OPINION THAT THE PROBLEM WITH SMITH-ENRON WOULD BE SOLVED THROUGH NEGOTIATION AND THAT UNDER NO CIRCUMSTANCES WOULD MARRANZINI'S COMMENT HAVE THE BACKING OF THE GOVERNMENT. HE CLOSED BY SAYING THAT MARRANZINI'S COMMENT WAS "PROBABLY THE OPINION OF THE C O N F I D E N T I A L SECTION 82 OF 82 SANTO DOMINGO 886627

E.O. 12958: DECL: 12/18/2002 TAGS: ENRG. DR SUBJECT: HUT-HEADED PUBLIC COMMENT AGGRAVATES TEMSE SITUATION OVER CDE SMITH-ENROW PAYMENT

MOMENT, UNDER PRESSURE."

THE WEDNESDAY MORNING PRESS

- 7. (U) LEADING DAILIES LISTIM DIARIO AND HOY LED THEIR FRONT PAGES ON DECEMBER 18 WITH STORIES ABOUT A PUBLIC ANNOUNCEMENT MADE BY CDE THE NIGHT OF THE 9TH. CDE ANNOUNCED THE IMPASSE WITH SMITH-ENRON HAD BEEN RESOLVED AND THAT IT PLANNED TO MAKE THE PAYMENT TODAY. THE LISTIN ARTICLE NOTED THAT "THE SOLUTION... WAS ANNOUNCED HOURS AFTER SMITH-ENRON COMPLAINED TO THE EMBASSY ABOUT ITS CONFLICT WITH CDE...."
- 8. (C) EMBOFF CONTACTED PICHARDO WHO CONFIRMED CDE ADMINISTRATOR MONTAS HAD ALSO CONTACTED HIM TO SAY CDE WOULD PAY ON THE 18TH. PICHARDO WILL INFORM US WHEN PAYMENT HAS BEEN RECEIVED.
- 9. (U) A COMPANION REPORT ON THE ELECTRICITY SECTOR IN . HOY STATED THAT PEAK HOURS ELECTRICITY DEMAND ON DECEMBER 9 WAS 1,258 MEGAWATTS WHILE CDE SUPPLIED ONLY 985 MEGAWATTS. HOY CHARACTERIZED THIS 265 MEGAWATT SHORTFALL AS CDE'S MOST CRITICAL POINT IN THE LAST FEW WEEKS OF GROWING BLACKOUTS IN SANTO DOMINGO AND ELSEWHERE. THE ARTICLE COMMENTS THAT SMITH-ENRON HAD PLAYED A PART IN THE SHORTFALL, OPERATING AT 145 MEGAWATTS INSTEAD OF THE 185 FOR WHICH THE FACILITY IS DESIGNED. ICOMMENT: THE SMITH-ENRON SHORTFALL IS: HOMEVER, A SMALL PERCENTAGE OF THE SHORTFALL ON THE GRID.)

COMMENT

18. (C) THERE IS A STRONG PERCEPTION ON THE PART OF

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THE DOMINICAN MAN-ON-THE-STREET THAT SMITH-ENRON HAS AN UNFAIR CONTRACT. PUBLIC PERCEPTIONS HAVE NOT BEEN HELPED BY THE COMPANY'S FAILURE TO GENERATE CONSISTENTLY THE ELECTRICITY IT CONTRACTED TO PROVIDE AND BY ITS THREAT TO SHUT DOWN OPERATIONS THREE WEEKS BEFORE CHRISTMAS. [(b)(6)]

THE

PUBLICITY GENERATED BY THIS EXCHANGE SERVES TO FURTHER EXACERBATE PUBLIC TENSION OVER CONTINUING ELECTRICAL BLACKOUTS. THE EMBASSY WILL REPORT IMMEDIATELY WHEN IT LEARNS THAT PAYMENT HAS BEEN RECEIVED. END COMMENT. CUBBISON

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# CONFIDENTIAL

# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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PAGE Ø1 OF Ø3

MID=199735381211

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CAVEAT (S) = HANDLE VIA

ACTION = [TRS] AAAA (1) . BOI (1) . CID (1) . EPD (1) . FCEN (1) . GE (1) . GT (1) . [BRD (1) . ICH (1) . [DB (1) . IDC (1) . IMB (1) . INN (1) . IOO (1) . ITF (1) . ITI (1)

OIMF (1) . QC (1) . SEN (-)

CRC = BSF5

RR RUEATRS
DE RUEHTO #5458/81 3531236
ZNY CCCCC ZZH
R 191236Z DEC 97
FM AMEMBASSY MAPUTO
TO RUEHC/SECSTATE WASHDC 8189
RHEBAAA/DEPT OF ENERGY WASHDC
INFO RUEHSAD/AMCONSUL DURBAN 8146
RUEHBG/AMCONSUL JOHANNESBURG 3687
RUCNSAD/SOUTHERN AFRICA DEVELOPMENT COMMUNITY
RUEHTN/AMCONSUL CAPE TOWN 8186
RUEHSA/AMEMBASSY PRETORIA 8997
RUCPDOC/USDOC WASHDC
BT

CONFIDENTIAL SECTION 81 OF 83 MAPUTO 885458

SOUTH AFRICA - ENRON'S PARTNER IN THIS PROJECT),
TOLD THE AMBASSADOR THAT IDC DELFVERED COMPLETED
FEASIBILITY STUDIES TO THE COVERNMENT THAT SAME DAY,
IN ADVANCE OF THE END OF YEAR DUE DATE.

4. (C) WAY SAID THE PROJECT DIMENSIONS REMAIN UNCHANGED; THE PIPELINE WOULD COST \$488 MILLION AND THE STEEL SLAB PLANT NEAR MAPUTO AND RELATED ACTIVITIES WOULD COME IN AT \$1.64 BILLION AND IDC GENERAL MANAGER TONY DROSTE CONFIRMED THESE FIGURES TO US. ENRON IS IN PARTNERSHIP WITH IDC ON THE WHOLE DEAL: BUT CONSTRUCTION AND OPERATION OF THE PIPELINE REMAIN ENRON'S SOLE RESPONSIBILITY.

[(b)(4)]

DEPT FOR AF/S/EPS AND EB/ICD

DOE FOR DONNA BOBBISH

E.O. 12958: DECL: 12/18/08
TAGS: ENRG, EPET, ECON, EINV, BEXP, PREL, MO
SUBJECT: MOZAMBIQUE GAS UPDATE

1. (U) GLASSIFIED BY: DCM CARMEN MARTINEZ. REASON: 1.5, (B), (D) AND (E)

2. (C) SUMMARY: ENROW AND ARCO TEAMS HAVE BEEN IN MAPUTO OVER THE PAST TEN DAYS. [(b)(1)]

[(b)(1)]

FUDON.

WITH SOUTH AFRICAN PARTNER IDC, PRESENTED FINAL FEASIBILITY STUDIES TO THE GRM DECEMBER 18. ARCO IS HAVING DIFFICULTY WITH ONE OF ITS PARTNERS, JCI, BUT IS MOVING AHEAD QUICKLY WITH SASOL AND EXPECTS TO BEGIN DRILLING IN ITS TEMANE FIELDS EARLY NEXT YEAR. END SUMMARY.

ENRON UPBEAT

3. (U) ENRON SENIOR VICE PRESIDENT TONY WAY
BRIEFED AMBASSADOR AND DCM DECEMBER 9 ON THE STATUS
OF THE ENRON PROJECT. IN A SEPARATE MEETING ON
DECEMBER 18, TONY DROSTE, GENERAL MANAGER OF IDC
(INDUSTRIAL DEVELOPMENT CORPORATION OF

[(b)(4)]

6. (C) WAY PREDICTED IT WOULD PROBABLY BE EARLY
1999 BEFORE CONSTRUCTION ON THE PIPELINE COULD
BEGIN. CONSTRUCTION OF THE 488 MILE LINE WOULD TAKE
ABOUT 18 MONTHS. [(b)(4)]

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# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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[(b)(4)]

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[(b)(1)]

ARCO STILL PRESSING

7. (C) SEPARATELY, DROSTE TOLD US IDC IS HOPEFUL C O N F I D E N T I A L SECTION 82 OF 83 MAPUTO 885458

DEPT FOR AF/S/EPS AND EB/ICD

DOE FOR DONNA BOBBISH

E.O. 12958: DECL: 12/18/88
TAGS: ENRG, EPET, ECON, EINV, BEXP, PREL, NO
SUBJECT: MOZAMBIQUE GAS UPDATE

SITE WORK ON THE STEEL PLANT COULD BEGIN BY THE END OF THE YEAR. EVEN IF FINANCING COULD BE FULLY IN PLACE EARLIER, CIVIL ENGINEERING CONSTRAINTS WITH THE ONGOING MOZAL ALUMINUM SMELTER IN MAPUTO, WHICH IS ALSO AN IDC PROJECT, WOULD PRECLUDE SITE WORK ANY SOONER.

8. (U) ENROW ALSO NOW SEENS TO HAVE A MELL
THOUGHT-OUT PUBLIC RELATIONS STRATEGY. MAY HAS
PLANS FOR DEMINING OPERATIONS MECESSARY FOR THE
PIPELINE CONSTRUCTION TO BE EXTENDED INTO
NEIGHBORING VILLAGES AND ROADS. ENROW HAS ALREADY
BEGUN ORGANIZING TRAINING COURSES IN MAPUTO FOR
SKILLED WORKMEN FOR THE PIPELINE PROJECT, AND THEY
PLAN SCHOOL BUILDINGS AND AN EXTENSIVE PROGRAM OF
UNIVERSITY SCHOLARSHIPS FOR STUDY IN THE U.S.

[(b)(1)]

 (U) MAY EVALUATED THE OVERALL DIRECT EMPLOYMENT IMPACT OF THE PROJECT AS ABOUT 5,888 JOBS DURING THE CONSTRUCTION PHASE, FALLING TO BETWEEN 888 AND 1888 THEREAFTER.

[(b)(1)]

11. (C) FOLLOWING CLOSE ON ENRON'S HEELS, A THREE-MAN ARCO TEAM ARRIVED IN MAPUTO ON DECEMBER 16 FOR MEETINGS WITH KACHAMILA. ARCO AND SASOL-PLAN A 548 MILE GAS PIPELINE SOUTH FROM THE TEMANE FIELDS TO SASOL'S SEKUNDA GAS FACILITY [(b)(1),(b)(4)]

[(b)(4)]

[(b)(4)]

14. (U) DISCUSSING THE DIRECT EMPLOYMENT IMPACT, FOLEY STATED THAT THERE WOULD BE ABOUT 1288 DIRECT HIRE POSITIONS, WITH ABOUT 188-128 EXPATRIATE STAFF. ACCORDING TO THE ARCO TEAM, MANY WORKERS COULD BE C O N F I D E N T I A L SECTION 83 OF 83 MAPUTO 885458

DEPT FOR AF/S/EPS AND EB/ICD

# CONFIDENTIAL

# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

[(b)(1)] curran

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MID=199735381211

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DOE FOR DONNA BOBBISH

E.O. 12958: DECL: 12/18/88
TAGS: ENRG, EPET, ECON, EINV, BEXP, PREL, MO

SUBJECT: MOZAMBIQUE GAS UPDATE

IRAINED BY SASOL AT THEIR SEKUNDA TRAINING FACILITY IN SOUTH AFRICA. ARCO ACKNOWLEDGED THAT PUBLIC RELATIONS WAS A KEY ELEMENT, AND WAS AWARE THAT ENVIRONMENTAL IMPACT STUDIES AND A DEMINING PLAN WERE CRITICAL TO THE PROJECT'S SUCCESS. FOLEY MELCOMED THE AMBASSADOR'S ASSURANCE OF EMBASSY ASSISTANCE IN THOSE MATTERS. AT THE SAME TIME, THE AMBASSADOR REMINDED THE TEAM (AS HE HAD DONE WITH ENRON) THAT, WITH TWO US COMPANIES HAVING ADVOCACY AGREEMENTS, THERE WERE LIMITS TO HOW FAR THE EMBASSY COULD GO. [(b)(1)]

IS. OU) THE ARCO TEAM DEPARTED IN AN UPBEAT MOOD AFTER THEIR SHORT TRIP, HIGHLIGHTED BY WHAT THEY CONSIDERED A VERY ENCOURAGING FOUR HOUR MEETING WITH MINISTER KACHAMILA. THE TEAM WAS HEADED FOR JOHANNESBURG TO MEET WITH JCI AND SASOL AND PROMISED US A FURTHER BRIEFING WHEN ARCO'S MANAGER OF INTERNATIONAL NEGOTIATIONS AND CONTRACTS, DAVID SUTTER, UISITS MAPUTO IN JANUARY TO CONTINUE TALKS WITH THE GRM.

ENERGY MINISTER STILL FAVORS ARCO

[(b)(1)]

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# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

[(b)(1)]

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CAVEAT (S) =

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ACTION = (TRS)CALL (3), EPD (1), GI (1), ICH (1), IDB (1), INN (1), ITF (1) 111 (1), OIMF (1), QC (1), SEN (-)

CRC = DASA

PP RUEATRS

DE RUEHTO #3379/81 2171453

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P 851453Z AUG 97

FM AMEMBASSY MAPUTO

TO RUEHC/SECSTATE WASHOC PRIORITY 9487 INFO RUEHSA/AMEMBASSY PRETORIA 8788

RUEHBG/AMCONSUL JOHANNESBURG 3620

RUEATRS/DEPT OF TREASURY WASHDC

RHEBAAA/DEPT OF ENERGY WASHDO

RUCPDOC/USDOC WASHOC

BI

CONFIDENTIAL SECTION 01 OF 03 MAPUTO 003379

PRETORIA FOR BRUDVIG

JOHANNESBURG FOR FSC MC ARNOLD

USDOC FOR ADVOCACY CENTER/3814A - RHAMPTON

USDOE FOR ANDREA LOCKWOOD AND CHRISTINE FLETCHER

DEPT PLSE PASS TO USTDA - JRICHTER AND MNEWELL

DEPT PLSE PASS TO EXIMBANK -- AEMMET

TREASURY FOR MRAUCH

DEPT FOR AF/EPS, EB/TPP/STA, EB/IFB, AF/S

E.O. 12958: 8/5/87

TAGS: ECOM, EPET, ENRG, ETRO, MZ, SF

SUBJECT: ENROW AND DEADLINES

CLASSIFIED BY CHARGE MIKE MCKINLEY, AMEMBASSY MAPUTO, FOR REASONS 1.5 B AND D. THIS CABLE CONTAINS PROPRIETARY INFORMATION WHICH SHOULD NOT BE SHARED WITH NON-USG CONTACTS.

#### SUMMARY

1. (C) ENRON'S PANDE GAS DEAL IS APPROACHING THE TWO-YEAR ANNIVERSARY OF THE SIGNING OF THE HEADS OF AGREEMENT (HOA) WHICH OPENED THE GATES TO PROJECT DEVELOPMENT IN HOVEMBER 1995. [(b)(1)]

3. (C) IN THE MEANTIME, ENRON AND IDC ARE COMMITTING TO INVEST IN THE IRON CARBIDE PLANT IN MAPUTO, AND IDC IS EMERGING AS A KEY PLAYER IN ANOTHER MEGA-PROJECT, THE PROPOSED GENCOR/ALUSAF ALUMINIUM SMELTER TO BE LOCATED IN MAPUTO. IDC COULD BECOME THE PRINCIPAL INVESTOR IN MOZAMBIQUE IF BOTH PROJECTS PAN OUT. 10C IS ALSO AT LEAST PARTIALLY INVOLVED IN THE SOUTH AFRICAN END OF THE MAPUTO GEVELOPMENT CORRIDOR. [(b)(1)]

END

SUMMARY.

ENRON VISITS

4. (C) ENRON'S PRINCIPAL NEGOTIATOR FOR THE PANDE GAS PROJECT, FONY WAY, VISITED MAPUTO BRIEFLY JULY 18-20, AND GAVE US A DETAILED BRIEFING ON WHERE THE PROJECT IS HEADED. [(b)(4)]

[(b)(4)]

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# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE #2 OF #3

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[(b)(4)]

[(b)(1)]

CONFIDENTIAL SECTION 82 OF 83 MAPUTO 883379

PRETORIA FOR BRUDVIG
JOHANNESBURG FOR FSC MC ARNOLD
USDOC FOR ADVOCACY CENTER/3814A - RHAMPTON
USDOE FOR ANDREA LOCKWOOD AND CHRISTINE FLETCHER
DEPT PLSE PASS TO USTDA - JRICHTER AND MNEWELL
DEPT PLSE PASS TO EXIMBANK -- AEMMET
TREASURY FOR MRAUCH
DEPT FOR AF/EPS, EB/TPP/STA, EB/IFB, AF/S

E.O. 12958: 8/5/07

TAGS: ECON, EPET, ENRG, ETRO, MZ, SF SUBJECT: ENRON AND DEADLINES

[(b)(4)]

7. (C) IN HIS CAMPAIGN TO SECURE THE FUTURE OF ENRON'S PARTICIPATION IN THE PROJECT, WAY, IN THE COMPANY OF CONSULTANT BILL FRIEDMAN, MET WITH CHISSANG JULY 19, AND THEN RETURNED WITH SENIOR IDC OFFICIALS TO MAKE THE PRESENTATIONS TO KACHAMILA AND SALOMAO JULY 24-25. [(b)(1)]

#### THE FOLLOW-UP

8. (C) THE MEETINGS MAY HAVE DONE THE TRICK IN POSTPONING AN OPEN CONFRONTATION [(b)(1)] BUT IT BID NOT STOP A NUMBER OF PEOPLE INSIDE THE GOVERNMENT (INCLUDING VICE-FOREIGN MINISTER PATRICIO AND CENTRAL BANK GOVERNOR MALEAME) FROM ASKING US WHEN ENRON/IDC WOULD COME UP WITH A BUYER. AND AN INTERVIEW KACHAMILA GAVE AUGUST 4 TO THE NEW DAILY FAXSHEET "NETICAL" [(b)(1)] THE POT. HE COMPLAINED THAT "ENRON MAS NOT ABLE TO GET HOLD OF THE SOUTH AFRICAN MARKET," AND ARGUED THAT SASOL WOULD HAVE TO BE PART OF THE CUSTOMER MIX EVEN THOUGH THE TWO COMPANIES DID NOT GET ALONG. HE REVIEWED PAST SOUR HISTORIES INVOLVING THE EARLY STAGES OF THE NEGOTIATIONS, WHILE ADMITTING THINGS WERE BETTER NOW. SIGNIFICANTLY, KACHAMILA [(b)(1)]

"). SAID THE GOVERNMENT WAS "OPEN" TO ANOTHER EXTENSION OF "SIX TO EIGHT MONTHS, BUT NO AGREEMENT HAS BEEN REACHED."

9. (C) "METICAL" THEN RAN A FOLLOW-ON ARTICLE ON ONE OF KACHAMILA'S GO-BETMEENS SHUKRI SALEH FROM DUBAT (PUTATIVE OWNER OF ZARARA PETROLEUM RECENTLY TRANSFORMED INTO LEOPARDUS). KACHAMILA RESPONDED TO IMPLICIT ACCUSATIONS OF TOO CLOSE A PERSONAL RELATIONSHIP WITH SHUKRI BY STATING THAT REPUTABLE COMPANIES LIKE ARCO "WOULD NOT BECOME INVOLVED WITH A SMALL OPERATOR THAT IS ONLY AFTER COMMISSIONS." HE NOTED THAT IT WAS SALEH WHO HAD INTRODUCED ARCO TO YEMEN. KACHAMILA ALSO SAID THAT THE TEMANE GAS DEVELOPMENT, AND IRON CARBIDE PLANT IN BEIRA PROPOSAL MADE BY JCI/ARCO, ARE IN THE STAGES OF DEVELOPMENT.

[(b)(1)]

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# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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PAGE 03 OF 03 MID=199721701267 092484 05/1526Z
 C O N F I D E N T ! A L SECTION 03 OF 03 MAPUTO 003379

PRETORIA FOR BRUDVIG
JOHANNESBURG FOR FSC MC ARNOLD
USDOC FOR ADVOCACY CENTER/3814A - RHAMPTON
USDOE FOR ANDREA LOCKWOOD AND CHRISTINE FLETCHER
DEPT PLSE PASS TO USTDA - JRICHTER AND MNEMELL
DEPT PLSE PASS TO EXIMBANK -- AEMMET
TREASURY FOR MRAUCH
DEPT FOR AF/EPS, EB/TPP/STA, EB/IFB, AF/S

E.O. 12958: 8/5/07 TAGS: ECON, EPET, ENRG, ETRD, MZ, SF SUBJECT: ENRON AND DEADLINES

COMMENT

[(b)(1)]

[(b)(1)]

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# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

[(b)(1)]

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CAVEAT (S) =

HANDLE VIA

ACTION = (TRS1801 (1) , EPO (1) , G1 (1) , 106 (1) , 100 (1) , 1M8 (1) , 1MF (1) , 1MR (1) , 1MF (1) , 1MR (1) , 1MR

CRC = 8429

PP RUEATRS

DE RUEHTO #3685/81 2281434

ZMY CCCCC ZZH

P 151434Z AUG 96

FM AMEMBASSY MAPUTO

TO RUEHC/SECSTATE WASHDC PRIORITY 7848 INFO RUCPDOC/DEPT OF COMMERCE WASHDC RUEHBG/AMCONSUL JOHANNESBURG 3419

RUEHSA/AMEMBASSY PRETORIA 8879

RHEBAAA/DOE WASHDC

BI

CONFIDENTIAL SECTION 81 OF 82 MAPUTO 883685

JOHANNESBURG FOR FCS MC ARNOLD DOE FOR BOBBISH; DOC FOR RODGERS

E.O. 12358: DECL: 88/14/06

TAGS: BEXP, EFIN, ECON, PGOV, MZ, SF

SUBJECT: WHAT NEXT ON THE ENRON PANDE GAS DEAL

REF: MAPUTO 3524

CLASSIFIED BY CHARGE MIKE MCKINLEY, EMBASSY MAPUTO, REASONS 1.5 B AND D. PLEASE STRICTLY PROTECT PROPRIETARY INFORMATION.

 (C) THE AUGUST 9 SIGNING OF THE HEADS OF AGREEMENT BETWEEN SOUTH AFRICA'S IDC, ENRON, AND MOZAMBIQUE'S ENH CLOSED ANOTHER CONTENTIOUS CHAPTER IN THE GNGOING NEGOTIATIONS OVER PANDE GAS. IT WAS A CLOSE THING,

[(b)(1)]

[(b)(1)]

3. (C) THERE ARE ACTUALLY A NUMBER OF ORE BODY ALTERNATIVES TO PHALABORMA LOCATED INSIDE SOUTH AFRICA. AS FOR ALTERNATIVES TO ISCOR AS AN OPERATING PARTNER, ENRON IS QUIETLY TALKING TO MAJOR JAPANESE COMPANIES THAT COULD DOUBLE AS CONSUMERS AND OPERATORS OF THE PLANT IF ISCOR OPTS OUT OR FOR A MINORITY POSITION. THERE ARE ALSO ENDICATIONS THAT OTHER ECONOMIC ACTORS ON THE SOUTH AFRICAN SCENE MAY BECOME INTERESTED IN AN EQUITY STAKE IN THE CARBIDE PLANT IF, AS EXPECTED, THE FEASIBILITY STUDY POINTS TO THE COMMERCIAL VIABILITY OF THE PIPELINE. FINALLY, THERE

ARE A NUMBER OF ANCILLARY USES FOR THE GAS THAT ENRON

IS CONSIDERING INCLUDING SALES TO A SASOL-PROPOSED

PHOSPHATE/AMONIA PLANT IN MAPUTO.

[(b)(1)]

- 5. (C) A LOT IS RIDING ON THE RIGHT OUTCOME TO THE FEASIBILITY STUDY. BUT MITH ENVIRONMENTAL CONCERNS ABOUT THE USE OF COAL GROWING INSIDE SOUTH AFRICA, WITH SASOL AND JOURDAN UNABLE TO ENTICE NORSK HYDRO FOR ANYONE ELSE) INTO A CHALLENGING BID FOR PANDE GAS, AND MITH MOZAMBIQUE INCREASINGLY AWARE THAT ENRON IS THE BEST OPPORTUNITY TO MARKET PANDE GAS IN THIRTY YEARS, THE PROSPECTS FOR A DEAL LOOK BETTER TODAY THAN THEY DID SIX MONTHS AGO. THERE IS ALSO MIDER COMMRCIAL INTEREST IN UTILIZIG THE GAS THAN EVEN SIX MONTHS AGO, AND SOME OF THE POLITICAL RESISTANCE TO THE DEAL ON BOTH SIDES OF THE BORDER IS FADING.
- 6. (C) ENRON IS ALSO LEARNING TO
  MARKET ITSELF. ITS
  IMAGE PROBLEMS FROM BOLIVIA TO INDIA ARE A CONTINUING
  PROBLEM, AND WITH GOOD REASON. THE SIGNING HERE ON
  AUGUST 9 WAS THE FIRST OCCASION IN TWO YEARS OF
  MEGOTIATIONS THAT ENRON BOTHERED TO PUT TOGETHER A

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# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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PRESS KIT FOR JOURNALISTS ON THE PROJECT AND ABOUT THE
COMPANY. ENROW HAS YET TO TOUCH BASE WITH THE
AMERICAN CHAMBER OF COMMERCE IN JOHANNEBURG TO DEVELOP
A BASE OF SUPPORT WITHIN THE AMERICAN BUSINESS
COMMUNITY IN SOUTH AFRICA. ENROW HAS NOT TALKED TO
SOUTH AFRICAN INDUSTRY ANALYSTS INTERESTED IN BREAKING
THE STRANGLEHOLD OF THE CONGLOMERATES AND OPENING THE
LOCAL ENERGY MARKET. THE ENROW TEAM PROMISES TO SET
THINGS RIGHT, AND TO DO A BETTER JOB OF PUBLIC
C O N F I D E N T I A L SECTION 82 OF 82 MAPUTO 883685

JOHANNESBURG FOR FCS MC ARNOLD DOE FOR BOBBISH; DOC FOR RODGERS

E.O. 12358: DECL: 08/14/06 TAGS: BEXP, EFIN, ECON, PGOV, MZ, SF SUBJECT: WHAT NEXT ON THE ENROW PANDE GAS DEAL

RELATIONS, TO INCLUDE CULTIVATING THE MEDIA. RECENT ARTICLES BY INFLUENTIAL JOURNALISTS LIKE SIMON BARBER OF "BUSINESS DAY" ARE IN FACT MORE FAVORABLE IN TONE.

7. (C) MOZAMBICAN ENERGY MINISTER KACHAMILA APPEARS TO HAVE HANDED ENRON A NINETY DAY EXTENSION BEYOND DECEMBER 1996 TO CONCLUDE NEGOTIATIONS BY REQUIRING THAT A CLAUSE TO THAT EFFECT BE INSERTED IN THE HOA SIGNED WITH IDC. IF THE SAME CLAUSE IS INCORPORATED IN THE ENH/ENRON HOA, THE TIMETABLE WILL EXIST FOR REASONABLE NEGOTIATIONS FOR A FINAL DECISION ON THE PIPELINE ON STRICTLY COMMERCIAL GROUNDS. [(b)(1)]

MCKINLEY

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# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT



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CAVEAT (S) =

HANDLE VIA ACTION = [TRS]BOI (1) .EPD (1) .GI (1) .108 (1) .IDC (1) .IMB (1) .INL (1)

INN (1) . ITI (1) . ITT (1) . OIMF (1) . QC (1) . SEN (-)

CRC = 8185

RR RUEATRS

DE RUEHTO #2515 1521542

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FM AMEMBASSY MAPUTO

TO RUENC/SECSTATE WASHDC 7451

INFO RUEHBG/AMCONSUL JOHANNESBURG 3364

RHEBAAA/DOE WASHDO

RUEHSA/AMEMBASSY PRETORIA 2895

RUEHBE/AMEMBASSY BELIZE Ø109

RUCPDOC/DEPT OF COMMERCE WASHDC

RUEHTN/AMCONSUL CAPE TOWN 8139

CONFIDENTIAL MAPUTO 882515

PRETORIA/JOHANNESBURG FOR ARNOLD AND BRUDVIG DOC FOR ADVOCACY CENTER; DOE FOR BOBBISH BELIZE FOR GALLUCCI

E. O. 12958: DECL: 5/31/2816 TAGS: ECON, EINV, PGOV, MZ, SF

SUBJECT: NEXT STEPS ON PANDE GAS PROJECT

REF: MAPUTO 2439

CLASSIFIED BY DENNIS C. JETT, AMBASSADOR, AMEMBASSY MAPUTO, DEPARTMENT OF STATE. REASON: 2.5 (B)

1. (C) ENRON OFFICIALS TONY WAY AND BILL FRIEDMAN VISITED MAPUTO MAY 29 AND 38 TO CALL ON GRM OFFICIALS

[(b)(1)]

[(b)(1)]

LONDON BUT WILL BE BACK IN SOUTH AFRICA IN ABOUT TEN HE SAID THAT HE AND FRIEDMAN WOULD THEN TRAVEL TO CAPE TOWN AND HOPED TO MEET AMBASSADOR JOSEPH AT THAT TIME. WAY ASKED THAT WE USE WHAT INFLUENCE WE HAVE TO OVERCOME THE ROADBLOCK ON THE SOUTH AFRICAN SIDE.

[(b)(1)]

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3. (C) WAY RETURNS TO SOUTH AFRICA TODAY, GOES ON TO

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## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

Ø23315 31/2023Z . MID=199615202235 PAGE Ø1 CAVEAT (S) =

HANDLE VIA ACTION = [TRS] BOI (1), GI (1) - IDB (1), IDC (1), IMB (1), INN (1), ITI (1) ITT (1), OIMF (1), QC (1), SEN (-) CRC = 6862

PP RUEATRS

PP RUEATRS
DE RUEHC #2499 1522019
ZNY CCCCC ZZH
P 312018Z MAY 96
FM SECSTATE WASHDC
TO RUEHTN/AMCONSUL CAPE TOWN PRIORITY 8463
RUEHSA/AMEMBASSY PRETORIA PRIORITY 8135
INFO RUEHBG/AMCONSUL JOHANNESBURG PRIORITY 2140
RUEHTO/AMEMBASSY MAPUTO PRIORITY 8779
BT

CONFIDENTIAL STATE 112499

FOR AMBASSADOR JOSEPH

E.O. 12958: DECL: 05/30/06 TAGS: ECON: EINV: PGOV: MZ: SF SUBJECT: PROMOTING ENRON: CALL ON TRADE MINISTER ERWIN

(A) PRETORIA 5036. (B) MAPUTO 2439. (C) MAPUTO 2515 REF:

(C) ENTIRE TEXT.

IN LIGHT OF DEVELOPMENTS REPORTED IN REFTELS DEPARTMENT BELIEVES IT WOULD ADVANTAGEOUS FOR YOU TO CALL ON TRADE MINISTER ALEC ERWIN IN SUPPORT OF THE IDC/ENRON HEADS OF AGREEMENT AND ENCOURAGE HIM TO AUTHORIZE THE SIGNING OF THE AGREEMENT WITHOUT DELAY. WE FEEL THE MESSAGE WOULD BE MOST EFFECTIVE IF DELIVERED WITHIN THE NEXT 10 DAYS, BEFORE ENRON NEGOTIATOR TONY WAY RETURNS FROM LONDON.

WE LEAVE IT WITH YOU. IN CONSULTATION WITH FCS OFFICIALS AND MINERALS OFFICER BRUDVIG, HOW BEST TO FRAME THE ARGUMENT. CHRISTOPHER BT # 2499 6862 NNNN

# CONFIDENTIAL

DEPT TREASURY COMCEN PH 822-2222 RM 1121/MT

18/11847

1), 90 (1),

PAGE 81

MID=199510801082

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CAVEAT (S) =

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RUEHSA/AMEMBASSY PRETORIA 2074

RUEHTN/AMCONSUL CAPE TOWN 8895

RT

CONFIDENTIAL MAPUTO 881758

USDOC FOR 4518/IEP/ANE/OA/FHOLM-OLSEN STATE FOR AF/S, AF/EPS, AND EB/CBA

E.O. 12356: N/A

TAGS: BEXP, ECON, MZ, SF

SUBJECT: ADVOCACY EFFORTS FOR ENROW'S GAS PROJECT

REF: A) 94 MAPUTO 4841 B) 94 MAPUTO 5658

C) 94 MAPUTO 5788 D) 94 MAPUTO 6288

E) 34 MAPUTO 7584 F) MAPUTO 228

G) USDOC 6218

1. ILOU) REFIELS A THROUGH F CHRONICLE THE DEVELOPMENT OF THE ENRON GAS PIPELINE PROJECT SINCE LAST OCTOBER. REFTEL D SPECIFICALLY SOLICITED ADVOCACY SUPPORT DUE TO THE SIZE AND COMPLEXITY OF THIS PROJECT. WHILE FOREIGN COMPETITORS, SUCH AS SASOL AND ASEA BROWN BOVER!, HAVE SHOWN INTEREST IN THIS PROJECT, ENRON IS CONFIDENT THAT ITS EXISTING MEMORANDUM OF UNDERSTANDING WITH THE GRM ALLAYS ANY CONCERNS ABOUT DIRECT COMPETITION AT THIS TIME. THERE ARE NO OTHER U.S. FIRMS COMPETING WITH ENRON FOR THIS PROJECT. IN FACT, NUMEROUS U.S. FIRMS, SUCH AS DRESSER INDUSTRIES, DANIEL FLUOR, AND MORGAN BANK, HAVE ALREADY EXPRESSED INTEREST IN WORKING TOGETHER WITH ENROW AS CONTRACTORS, CONSULTANTS, OR SUPPLIERS.

[(b)(1)]

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[(b)(1)]

AT THIS TIME, HOWEVER,

MEGOTIATIONS BETWEEN ENRON AND THE GOVERNMENT ARE PROCEEDING AND MAKING PROGRESS. THE STRATEGY ADOPTED BY ENRON IS TO TAKE THE HIGH ROAD. EMPHASIZING THE PARAMOUNT IMPORTANCE OF THIS PROJECT TO THE COUNTRY'S ECONOMIC DEVELOPMENT [(b)(1)]

3. (LOU) ADVOCACY SUPPORT FROM WASHINGTON WOULD BE A WELCOME COMPLEMENT TO THE EMBASSY'S CONTINUING

EFFORTS. [(b)(5)]

4. (C) THE ENRON GAS PROJECT IS THE LARGEST BUSINESS OPPORTUNITY WHICH THE GRM HAS EVER CONSIDERED. IT IS BRINGING MOZAMBIQUE UNPARALLELED ATTENTION FROM THE INTERNATIONAL BUSINESS COMMUNITY AND COULD RECOME MOZAMBIQUE'S FLAGSHIP INVESTMENT PROJECT. [(b)(1)]

ADVOCACY EFFORTS WILL BE IMPORTANT TO FOCUS GRM LEADERS ON THE ECONOMIC GAINS TO BE DERIVED FROM THIS PROJECT AND THE RESULTING POLITICAL GOODWILL GENERATED WITH SOUTH AFRICA AND THE UNITED STATES.

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# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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CAVEAT (S) =

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RUCPDOC/USDOC WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEHSA/AMEMBASSY PRETORIA 1932
RUEHAB/AMEMBASSY ABIDJAN 8893

BT CONFIDENTIAL SECTION 81 OF 82 MAPUTO 882174

PRETORIA PASS JOHANNESBURG FOR FCS - MARMOLD PRETORIA FOR ECON - LBRUDVIG ABIDJAN FOR USED/AFDB USDOC FOR 4510 ITA/IEP/AMESA/OA/DROGERS USDOC FOR ADVOCACY CENTER - SBALLARD TREASURY FOR OASIA - JRALYEA, NEPSTEIN, EBARBER DEPT PLEASE PASS TO USTR - RWHITAKER, UVALLE DEPT FOR EB/IFD, AF/S, AF/EPS - MHEATH DEPT PLEASE PASS TO USTDA - MNEWELL, JRICHTER DEPT PLEASE PASS TO EXIMBANK - AEMMET, CMORIARITY DEPT PLEASE PASS TO OPIC - RRUGA, JPOLAN

E.O. 12958: DECL 85/82/84
TAGS: EINV. EPET, ENRG, EFIN, ECON, MZ, US
SUBJECT: ENRON SIGNS GAS FRAMEWORK AGREEMENT THAT
GIVES GREEN LIGHT TO \$2.5 BILLION MISP PROJECT

REF: 98 MAPUTO 5677

THIS CABLE IS CLASSIFIED CONFIDENTIAL BY ECONOMIC OFFICER JOE RIPLEY FOR REASONS: 1 (B) AND (D).

1. (U) SUMMARY: ON APRIL 38, ENRON SENIOR VICE PRESIDENT TONY WAY ALONG WITH ENH ONCIAMBIQUE'S NATIONAL OIL AND GAS EXPLORATION AND DEVELOPMENT COMPANY) PRESIDENT ISSUFO ABDULA: AND MINISTER OF MINERAL RESOURCES AND ENERGY JOHN KACHAMILA SIGNED THE LONG AWAITED FRAMEWORK AGREEMENT GOVERNING THE DEVELOPMENT OF PANDE NATURAL GAS FIELD. THE FRAMEWORK AGREEMENT: ALONG WITH THE HEADS OF AGREEMENT SIGNED IN SEPTEMBER 1998, MEANS THAT THE USD 2.5 BILLION MAPUTO IRON AND STEEL PROJECT (MISP) IS NO LONGER MERELY A PROPOSAL. BOTH THE MOZAMBICAN COUNCIL OF MINISTERS

AND ENRON'S BOARD HAVE BLESSED THE PROJECT. ENRON AND THE IDC CAN NOW ENTER INTO FINANICAL ARRANGEMENTS AND PARTMERSHIPS RELATING TO MAKING THE GAS PIPELINE AND IRON AND STEEL PLANT A REALITY. END SUMMARY.

2. (C) THE ROAD TO AN AGREEMENT WAS A LONG ONE, AND ONE WHICH WE MOSTLY SUMMARIZED LAST SEPTEMBER WHEN ENRON SIGNED THE HOA WITH MINISTER OF INDUSTRY OLDEMIRO BALOI AND THE INDUSTRIAL DEVELOPMENT COMPANY GOVERNING THE IRON AND STEEL PLANT. [(b)(1)]

IN HIS STATEMENT TO THE PRESS; KACHAMILA MOTED THE OBVIOUS BENEFITS OF MISP TO MOZAMBIQUE, BUT STILL COULD NOT RESIST POINTING TO OUTSTANDING ISSUES SURROUNDING THE PROJECT: SITE SELECTION, MATER RESOURCES, ENVIRONMENTAL IMPACT, TRANSPORT OF IRON ORE FROM SOUTH AFRICA, AND MAPUTO PORT DEVELOPMENT. THE PRESS PICKED UP ON THESE DURING THE ENSUING PRESS CONFERENCE AND TOOK THE OPPORTUNITY TO PEPPER ENRON'S MAY WITH QUESTIONS.

- 3. (C) NOTWITHSTANDING, THE SIGNING CEREMONY AND PRESS CONFERENCE WAS ONE OF ENRON'S BEST LOCAL PUBLIC RELATIONS EFFORTS TO DATE, AS KEY PEOPLE TO THE PROJECT MANAGED TO MAKE IT ON SHORT NOTICE TO WITNESS THE EVENT. PORTUGUESE TRANSLATION WAS AVAILABLE IN THE PERSON OF ENROW'S COUNTRY REPRESENTATIVE AUGUSTINHO ZACARIAS, WHO PLAYED A KEY ROLE THIS PAST YEAR IN MOBILIZING GRM SUPPORT FOR THE PROJECT: BUT WHO IS NOW LEAVING ENROW FOR A UNITED NATIONS JOB. ENRON'S HANDLING OF THE LOCAL PRESS, AFTER FIVE YEARS OF FLYING IN AND OUT OF THE COUNTRY, FINALLY REFLECTED A FULL GRASP OF MOZAMBICAN SENSIBILITIES AND SHOWED THAT ENRON IS CLEARLY TAKING MOZAMBIQUE SERIOUSLY. IN ADDITION TO THE DIFFICULT JOB OF REPLACING ZACARIAS, ACCORDING TO MISP MANAGER BILL MANAGER, ONE OF ENRON'S FIRST ACTIONS WILL BE TO HIRE A LOCAL PUBLIC RELATIONS FIRM.
- 4. (C) WEBSTER AND WAY SEEMED CONCERNED BUT NOT OVERLY DRAMATIC ABOUT THE PROSPECT OF REACTIVATING PARTMER IDC, WHICH MAY NOT NECESSARILY BE A SURE THING.

  [(b)(1)]

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JAPAMESE STEEL GIANT MITSUI AND THE EUROPEAN TRADING COMPANY DUFERCO; IT IS NOT CLEAR THAT THERE ARE MANY OTHERS. THE PROJECT MAY NOT NEED THEM. DUFERCO SIGNED A LETTER OF INTENT WITH ENRON IN MAPUTO IN 1998. AND MITSUI WAS SERIOUS ENOUGH TO VISIT MOZAMBIQUE BEFORE TELLING ENRON THAT IT MANTED THE GAS FRAMEWORK AGREEMENT SIGNED BEFORE CONTINUING TALKS. ENRON STILL HAS A LOT OF WORK TO DO. [(b)(1)]

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PRETORIA PASS JOHANNESBURG FOR FCS - MARMOLD
PRETORIA FOR ECON - LBRUDVIG
ABIDJAN FOR USED/AFDB
USDOC FOR 4518 ITA/IEP/ANESA/OA/DROGERS
USDOC FOR ADVOCACY CENTER - SBALLARD
TREASURY FOR OASIA - JRALYEA, NEPSTEIN, EBARBER
DEPT PLEASE PASS TO USTR - RWHITAKER, VVALLE
DEPT FOR EB/IFD, AF/S, AF/EPS - MHEATH
DEPT PLEASE PASS TO USTDA - MNEWELL, JRICHTER
DEPT PLEASE PASS TO EXIMBANK - AEMMET, CMORIARITY
DEPT PLEASE PASS TO OPIC - RRUGA, JPOLAN

E.O. 12958: DECL 85/82/84
TAGS: EINV, EPET, ENRG, EFIN, ECON, MZ, US
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[(b)(1)]

6. (C) INVITED GUESTS TO THE SIGNING CEREMONY INCLUDED THE COUNTRY REPRESENTATIVES FOR SASOL AND ARCO. THE GROUP STUCK AROUND AND MADE A POINT OF TALKING INDIVIDUALLY WITH EMRON REPRESENTATIVES. THE BRITISH BORN SASOL REP WANTED TO TALK, BUT WOULD HAVE TO CLEAR IT WITH SOUTH AFRICA FIRST. IN THE WAKE OF THE ANNOUNCEMENT OF ARCO'S MERGER WITH BP/AMOCO BY THE END OF THIS YEAR (SEPTEL), ARCO REPS SEEMED PRETTY OPEN TO TALKING WITH EMRON, LOOKING SUSPICIOUSLY LIKE JOB SEEKERS.

7. (C) WITH AGREEMENTS IN HAND, ENRON HAS TWO AND HALF YEARS TO SEARCH THE WORLD FOR PARTNERS MADE OF STEEL. ENRON AND A REACTIVATED IDC WOULD PROVIDE HALF THE TOTAL EQUITY IN THE PROJECT, WITH THE REST COMING FROM STEEL OPERATORS AND TRADERS. BUT THE LIST OF POTENTIAL COINVESTORS HAS SUFFERED FROM THE ASIAN FLU. GONE ARE THE TAIWANESE AND KOREANS. REMAINING ARE

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CAVEAT (S) =

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TREASURY FOR DAS STEVEN RADELET

E. O. 12958: N/A TAGS: EFIN EAID PREL, NI SUBJECT: CHIEF ECONOMIC ADVISOR DISCUSSES NIGERIAN ECONOMY WITH VISITING TREASURY DEPUTY ASSISTANT SECRETARY.

 SUMMARY: TREASURY DEPUTY ASSISTANT SECRETARY FOR AFRICA STEVEN RADELET MET WITH CHIEF ECONOMIC ADVISOR PHILIP ASIODU ON APRIL 18. CHIEF ASIODU SOLICITED USG SUPPORT FOR DEBT REDUCTION AND FORGIVENESS, COMMENTED ON THE BUDGET AND THE EXECUTIVE'S RELATION WITH THE NATIONAL ASSEMBLY, NOTED RECENT DEVELOPMENTS IN THE ENERGY SECTOR, AND SHARED SOME PERSONAL VIEWS ON NATIONAL SOVEREIGNTY AND CALLS FOR CONFEDERATION, END SUMMARY.

### RELATIONS WITH THE NATIONAL ASSEMBLY

- 2. DEPUTY ASSISTANT SECRETARY RADELET VISITED HIGERIA AS PART OF A DELEGATION HEADED BY UNDER SECRETARY FOR POLITICAL AFFAIRS THOMAS PICKERING (SEPTEL). CHIEF ASIODU ASKED RADELET ABOUT THE DELEGATION'S MEETING WITH MEMBERS OF THE NATIONAL ASSEMBLY: AND LAMENTED THAT DISAGREEMENTS BETWEEN THE LEGISLATURE AND THE EXECUTIVE HAD BECOME A PUBLIC CONTROVERSY. ASIODU STATED THAT THE BUDGETARY PROCESS "HAS NOT BEEN WHAT IT SHOULD," AND NOTED THAT THE MATIONAL ASSEMBLY HAD FAILED TO LOOK AT THE LEVEL OF RESOURCES AVAILABLE BEFORE ALLOCATING FUNDS.
- 3. THE CHIEF ECONOMIC ADVISOR ALSO NOTED THAT THE LEGISLATURE HAD INCREASED THE BUDGET FOR CERTAIN MINISTRIES WITHOUT CONSIDERING WHAT WAS "FEASIBLE," MEANING THAT THE EXECUTIVE LACKS THE CAPACITY TO SPEND THE ALLOCATED FUNDS IN THE REMAINING EIGHT MONTHS OF THE YEAR. CHIEF ASIODU POINTED OUT THAT THE INCREASES IN THE PROPOSED YEAR 2000

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BUDGET WERE ALL CAPITAL EXPENSES (AND THEREFORE DIFFICULT TO DISBURSE RAPIDLY) AND ESTIMATED THAT THE EXECUTIVE COULD BE UNDERSPENDING AS MUCH AS FIFTY PERCENT OF THE FUNDS ALLOCATED. HE SUGGESTED THAT THEY COULD AGREE WITH THE NATIONAL ASSEMBLY ON ROLLING OVER UNSPENT FUNDS INTO THE FOLLOWING YEAR, AND LAMENTED THAT THE LEGISLATURE WANTED TO "MAKE IT SEEMED AS IF SCHEONE HAS DONE SOMETHING WRONG" IF FUNDS ARE NOT SPENT.

4. DAS RADELET INFORMED CHIEF ASIODU THAT THE DELEGATION'S MEETING WITH THE MEMBERS OF THE NATIONAL ASSEMBLY HAD DEALT MORE WITH THE DYNAMICS OF THE (BUDGETARY) PROCESS THAN WITH PARTICULAR BUDGET ITEMS. ASIODU RESPONDED THAT HE HOPED THE DELEGATION HAD SUCCEEDED IN EXPLAINING TO THE MEMBERS OF THE NATIONAL ASSEMBLY THAT IN AN "AMERICAN-STYLE" PRESIDENTIAL SYSTEM SUCH AS NIGERIA'S, THE EXECUTIVE AND THE LEGISLATURE DO NOT MAINTAIN THE KIND OF CLOSE RELATIONSHIP CHARACTERISTIC OF A PARLIAMENTARY SYSTEM. ACCORDING TO ASIODU, THE ASSEMBLY HAD YET TO REALIZE THAT THE EXECUTIVE DOES NOT NEED TO FORMAL AND CONSTANTLY CONSULT WITH THE ASSEMBLY.

#### IMF, PARIS CLUB AND FOREIGN DEBT

- 5. DAS RADELET POINTED OUT THAT TIME WAS RUNNING OUT FOR THE GON TO CONCLUDE THE PENDING STAND-BY ARRANGEMENT (SBA) WITH THE IMF. RADELETE OPINED THAT IF THE GON DOES NOT CONCLUDE AN SBA WITH THE FUND WITHIN THE FIRST FEW WEEKS IN MAY, IT MAY BE NECESSARY NEGOTIATE A NEW AGREEMENT FROM SCRATCH. THE DEPUTY ASSISTANT SECRETARY EXPLAINED THAT, WITH INCREASED OIL REVENUES LIKELY TO ELIMINATE GOVERNMENT DEFICITS: THE FUND WAS FOCUSING ON THE QUALITY OF BUDGETARY ALLOCATIONS AND ON PROGRESS ON PRIVATIZATION AS KEY ECONOMIC BENCHMARKS. RADELET ADDED THAT HE HAD ENCOURAGED MEMBERS OF THE NATIONAL ASSEMBLY TO INSULATE THE BUDGETARY PROCESS FROM THE VOLATILITY OF OIL PRICES. THIS COULD BE ACHIEVED, HE SAID, BY ESTIMATING A REASONABLE PRICE FOR OIL AND THEN USING THAT SAME ESTIMATE IN PROJECTING REVENUES IN THE RESPECTIVE ANNUAL BUDGETS FOR TWO OR THREE CONSECUTIVE YEARS, AS IT IS DONE IN MALAYSIA AND INDONESIA.
- 5. CHIEF ASIODU WAS GRATEFUL FOR USG SUPPORT AT THE PARIS CLUB, AND HOPED THAT HIGERIA WOULD OBTAIN "SUBSTANTIAL" DEBT RELIEF IF THE GON MEETS IMF BENCHMARKS FOR NON-CONCESSIONARY RESCHEDULING. THE CHIEF ECONOMIC ADVISOR WAS SATISFIED THAT THE UNITED STATES, AND THE PARIS CLUB, HAD COME TO ACCEPT A USD 1.5 BILLION CEILING FOR DEBT FINANCING PROPOSED BY THE GON FOR THE CURRENT YEAR. ASIODU OBJECTED TO CREDITOR UNCLAS SECTION 82 OF 83 ABUJA 8575

TREASURY FOR DAS STEVEN RADELET

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E.O. 12958: N/A
TAGS: EFIN EAID PREL, NI
SUBJECT: CHIEF ECONOMIC ADVISOR DISCUSSES NIGERIAN ECONOMY
WITH VISITING TREASURY DEPUTY ASSISTANT SECRETARY.

NATIONS' INSISTENCE THAT MIGERIA ESTABLISHES A REPAYMENT TRACK RECORD BEFORE DISCUSSING DEBT RELIEF. HE CONCEDED IT IS UNLIKELY THAT DEBT RELIEF WILL TAKE PLACE IMMEDIATELY, BUT WISHED THAT A COMMITMENT TO DEBT FORGIVENESS IN THE FUTURE BE PART OF THE DIALOGUE NOW. ASIODU EXPLAIMED THAT THE GON WAS SPENDING ON FOREIGN DEBT FIVE TIMES THE AMOUNT DEDICATED TO EDUCATION, AND THAT MIGERIA MEEDED "ALL THE HELP IT CAN GET" FROM THE INTERNATIONAL COMMUNITY.

- 7. DEPUTY ASSISTANT RADELET NOTED THE IMPORTANCE OF THE GON MOVING AHEAD ON RESTRUCTURING PRIVATE SECTOR DEBT INSTRUMENTS, INCLUDING BRADY BONDS, IN THE CONTEXT OF THE OVERALL DEBT RESTRUCTURING. RADELET POINTED OUT THAT DELAYS IN REACHING AN AGREEMENT WITH THE IMF AND THE PARIS CLUB WOULD MAKE IT MORE DIFFICULT TO KEEP TOTAL DEBT SERVICE PAYMENTS FOR THE YEAR WITHIN THE USD 1.5 BILLION CEILING, SINCE QUARTERLY PAYMENTS WOULD BE DUE TO THE PRIVATE SECTOR (NOTE: THE CURRENT ALLOCATION OF THE USD 1.5 BILLION INCLUDES TWO QUARTERLY PAYMENTS TO THE PRIVATE SECTOR; A DELAY UNTIL SEPTEMBER WOULD REQUIRE A THIRD QUARTERLY PAYMENT. END NOTE.) CHIEF ASIODU RESPONDED THAT THE GON HAD BEGUN THE PROCESS OF RETAINING AN ADVISOR FOR RESTRUCTURING PRIVATE SECTOR DEBTS.
- 8. DEPUTY ASSISTANT SECRETARY RADELET REASONED THAT CREDITOR COUNTRIES WOULD LOOK FAVORABLY UPON NIGERIA IF THE PROPOSED BUDGET INCLUDES STRONG HEALTH, EDUCATION, AND OTHER SOCIAL SPENDING. ASIODU RESPONDED THAT THE BUDGET CREATES A USD 1 BILLION POVERTY ALLEVIATION FUND, AND THAT, IN ANY CASE, MOST OF THE BUDGET'S CAPITAL EXPENDITURES, SUCH AS ROAD, POWER OR WATER PROJECTS, WILL HAVE AN EFFECT ON POVERTY ALLEVIATION, ABOVE AND BEYOND THE EARMARKED FUND. ASIODU ADDED THAT THE (ESTIMATED) USD 18 BILLION THAT NIGERIA HAS SPENT "DEFENDING DEMOCRACY IN LIBERIA FOR THE UNITED STATES, AND IN SIERRA LEONE FOR THE UNITED KINGDOM" SHOULD BE ISOMEHOW) TAKEN INTO ACCOUNT IN DEBT DISCUSSIONS INOTE: GON'S CLAIM THAT IT HAS SPENT USD 18 BILLION IN PEACEKEEPING OPERATIONS IN LIBERIA AND SIERRA LEONE IS UNSUBSTANTIATED. END MOTE.)

#### PRIVATIZATION

9. CHIEF ASIODU DEFENDED THE GON'S PRIVATIZATION STRATEGY, PARTICULARLY ON THE POWER SECTOR. ACCORDING TO ASIODU. THE PRIVATIZATION OF THE NIGERIAN ELECTRIC POWER AUTHORITY INEPA) REQUIRES THE RESTRUCTURING OF THE COMPANY TO MAKE IT MORE ATTRACTIVE TO INVESTORS. FURTHERMORE, NEPA'S

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PRIVATIZATION CAN NOT PRECEDE THE ESTABLISHMENT OF A REGULATORY ENVIRONMENT IN THE ELECTRICITY SECTOR. ASIODU EXPLAINED THAT THE WORLD BANK SUPPORTED GON'S PLANS TO "MAKE SURE THAT THE TERMS OF REFERENCE ARE CLEAR" BEFORE PROCEEDING WITH PRIVATIZATION, WHICH HE OPINED COULD START IN 2001 AND BE COMPLETED BY 2003. HE ADDED THAT HE FAVORED AN AMERICAN-STYLE MODEL OF ZONAL FRANCHISES OVER PLANS TO BREAK UP AND COMMERCIALIZE THE COMPANY ALONG GENERATION, TRANSMISSION AND DISTRIBUTION FUNCTIONS, ALTHOUGH NO DECISION HAD BEEN MADE YET ON THIS ISSUE (NEPA VILL BE AUDITED, HE SAID, TO INFORM SUCH DECISION.) THE CHIEF ECONOMIC ADVISOR STATED THAT THE GON WILL APPROVE THE OPERATION OF INDEPENDENT POWER PROVIDERS (IPP), INCLUDING MOBIL, ABB AND "MAYBE" ENRON.

- 18. CHIEF ASIODU RESTATED GON'S VIEW THAT SOME STATE OWNED ENTERPRISES WILL REQUIRE OVERHAULING BEFORE PRIVATIZATION. ASIODU EXPLAINED THAT THIS WAS PARTICULARLY THE CASE WITH SERVICE PROVIDERS (SUCH AS POWER PLANTS AND REFINERIES). AS THE GON HAS A RESPONSIBILITY TO MAKE SURE THAT THE PUBLIC BENEFITS FROM THEIR PROPER OPERATION. DAS RADELET NOTED THAT INVESTING NEW MONEY INTO LOSS MAKING STATE ENTERPRISES WAS A RISKY STRATEGY. SINCE THERE IS NO GUARANTEE OF GETTING THE MONEY BACK. CHIEF ASIODU RESPONDED THAT THE GON WOULD FACTOR THE COSTS OF RENOVATING AND RESTRUCTURING PUBLIC ENTERPRISES WHEN THEY ARE PRIVATIZED.
- 11. ASIODU NOTED RECENT PROGRESS IN THE COMPLETION OF TURN-AROUND MAINTENANCE AT THE PORT HARCOURT REFINERY, AND CONCEDED THAT A SIMILAR PROJECT FOR THE KADUMA REFINERY "HAD NOT BEEN SATISFACTORY" (NOTE: IN 1998 FRENCH COMPANY TOTAL SIGNED BUT FAILED TO FULFILL A CONTRACT TO RENOVATE THE REFINERY, PURPORTEDLY FOR TECHNICAL REASONS. THE REFINERY UNCLAS SECTION 83 OF 83 ABUJA 8575

TREASURY FOR DAS STEVEN RADELET

E.O. 12958: M/A
TAGS: EFIN EAID PREL, NI
SUBJECT: CHIEF ECONOMIC ADVISOR DISCUSSES NIGERIAN ECONOMY
WITH VISITING TREASURY DEPUTY ASSISTANT SECRETARY.

CONTINUES TO OPERATE WELL- BELOW FULL CAPACITY. END NOTE.)
ASIODU ALSO STATED THAT THE GON WOULD NAME A NEW MANAGER TO
CONDUCT A TECHNICAL ASSESSMENT OF THE AJECKUTA STEEL
FACTORY, AND THAT THERE HAD BEEN TECHNOLOGICAL IMPROVEMENTS
MADE ON THE NATIONAL FERTILIZING COMPANY OF NIGERIA
(NAFCON).

INVESTMENT CLIMATE AND POLITICAL STABILITY

12. RESPONDING TO DEPUTY ASSISTANT SECRETARY RADELET'S

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QUESTION ON CHANGES IN THE INVESTMENT CLIMATE, CHIEF ASIODU
STATED THAT "WE WENT BACK WITH THE TALIBAN-STYLE
RETROGRESSION IN SOME STATES, WHILE MAKING SOME PROGRESS IN
OTHERS, LIKE IN DELTA STATE UNDER THE MIGER DELTA
DEVELOPMENT CORPORATION (NDDC)." HE ADDED THAT THE OIL
COMPANIES IN THE SOUTH HAD COMMITTED THEMSELVES TO A
"COVENANT" WITH THE LOCAL COMMUNITIES, WHICH HE HOPED MOULD
MODERATE TEMPERS IN THE REGION.

13. DAS RADELET ASKED CHIEF ASIODU ABOUT THE GON'S CANCELLATION OF A USD 65 MILLION CONTRACT FOR THE REACTIVATION OF THREE CAS TURBINE UNITS AT THE EGBAN THERMAL STATION IN LAGOS (NOTE: THE COMPANY ORIGINALLY AWARDED THE CONTRACT, MARIDA, WAS IN PARTNERSHIP WITH GENERAL ELECTRIC AND BABCOCK AND WILCOX. END NOTE.) ASIODU, IN A SOMEWHAT DEFENSIVE TONE, EXPLAINED THAT THE CONTRACT HAD BEEN CANCELLED "BEFORE IT CAME INTO EFFECT" (MEANING THAT THE GON HAD NOT MADE ANY PAYMENTS TO MARIDA) BECAUSE IT WAS NOT CLEAR IF THE COMPANY HAD THE TECHNICAL KNOW-HOW TO PERFORM THE REHABILITATION OF THE TURBINES. ASIODU STATED THAT MARUBENI. THE JAPANESE FIRM THAT WAS AWARDED THE NEW CONTRACT, WAS BETTER QUALIFIED TO REHABILITATE THE TURBINES, BECAUSE IT MARUBENI) HAD ORIGINALLY BUILT THEM. CHIEF ASSODU MAINTAINED THAT, AT THE TIME THE CONTRACT WAS SIGNED, GE WAS NOT MARIDA'S PARTHER. HAD GE DEALT WITH THE GON DIRECTLY, HE ADDED, THE ISSUE OF TECHNICAL EXPERTISE MIGHT HAVE NOT ARISEM. ASIODU CONCEDED THAT THE GON HAD NOT EXERCISED "ALL DUE DILIGENCE" IN THE MATTER. (NOTE AND COMMENT: NARIDA WAS NEVER GIVEN THE OPPORTUNITY TO PERFORM THE SIGNED CONTRACT. GON OFFICIALS HAVE BEEN SURPRISED, AND UNCOMFORTABLE: WITH USG INQUIRIES ON THIS ISSUE. THE GON SEEMS TO RESENT AND REGRET NOT BEING FULLY AWARE THAT A MAJOR U.S. COMPANY WOULD BE AFFECTED BY THE CONTRACT'S CANCELLATION: PARTICULARLY AFTER ENRON'S DEBACLES ON A DIFFERENT CONTRACT. END NOTE AND COMMENT.)

14. ON A MORE REASSURING NOTE, ASIOOU STATED THAT PROSPECTS FOR THE LONG-TERM POLITICAL STABILITY OF NIGERIA MERE GOOD, MOTWITHSTANDING RECENT CALLS FOR POLITICAL CONFEDERATION AND A MATIONAL SOVEREIGNTY CONFERENCE. HE POINTED OUT THAT HE MAS "NOT PARTICULARLY EXCITED ABOUT CONFEDERATION," ADDING THAT ITS PROPONENTS HAD NOT EXPLAINED ITS MEANING, AND THAT THE ROLE OF THE CENTRAL GOVERNMENT WOULD NOT DISAPPEAR IN A CONFEDERATE STATE. ACCORDING TO ASIODU, NIGERIANS DO NOT MANT A CONFEDERATION, AS NORTHERNERS WANT TO BE ABLE TO SELL THEIR CATTLE TO THE REST OF THE COUNTRY AS MUCH AS SOUTHEASTERNERS WISH TO PROTECT THEIR OUT-OF-STATE INVESTMENTS. THERE ARE, HE ADDED, OVER 250 MATIONAL MINDITY GROUPS IN NIGERIA, MOST OF WHICH OOK TO THE CENTRAL GOVERNMENT FOR PROTECTION.

15. CHIEF ASIODU STATED THAT THERE ARE THOSE WHO FORGET THAT THERE IS A SOVEREIGN GOVERNMENT ALREADY IN PLACE IN MID=288813881123

BG8555

NIGERIA, ONE WHOSE SOVEREIGNTY WAS UPHELD IN A CIVIL WAR
THAT NIGERIANS DO NOT WANT TO RELIVE. AS AN ALTERNATIVE TO
A MATIONAL SOVEREIGN CONFERENCE, THE CHIEF ECONOMIC ADVISOR
SUGGESTED A MAJOR ADDITION TO THE NUMBER OF SEATS IN ONE OF
THE TWO HOUSES IN THE NATIONAL ASSEMBLY, MAKING IT A FORUM
WHERE THE POLITICAL LONGINGS OF THE NATIONAL MINORITIES CAN
BE HEARD. IN ANY CASE, ASIODU REMARKED, THE NATIONAL
ASSEMBLY LACKS THE MANDATE TO ALTER THE CONSTITUTIONAL ORDER
BECAUSE NIGERIANS DID NOT ELECT WITH THIS IN MIND.

09/14032

16. COMMENT: WHILE THE GON CAN BE EXPECTED TO CONTINUE PUBLICLY PURSUING A COMMITMENT ON THE PART OF CREDITOR NATIONS TO CANCEL NIGERIA'S DEBT, SENIOR GON OFFICIALS ARE STARTING TO REALIZE THAT SUCH A COMMITMENT WILL NOT BE FORTHCOMING IN THE ABSENCE OF A SUCCESSFUL TRACK RECORD IMPLEMENTING IMP ECONOMIC PERFORMANCE BENCHMARKS. THE CHIEF ECONOMIC ADVISOR DID NOT INDICATE WHETHER HE BELIEVES THAT THE GON CAN ATTAIN THESE BENCHMARKS, PARTICULARLY TO THE EXTEND THAT THEY INVOLVE MORKING WITH THE NATIONAL ASSEMBLY ON BUDGETARY ISSUES AND FRIVOLOUS SPENDING. THE VIEWS OF THE CHIEF ECONOMIC ADVISOR ON PRIVATIZATION REAFFIRM THE GON'S INTENT ON OUERHAULING KEY PUBLIC ENTERPRISES BEFORE PUTTING THEM ON THE MARKET. THIS SHOULD NOT NECESSARILY PREVENT THEIR PRIVATIZATION, BUT IT IS LIKELY TO DELAY THE PROCESS. END COMMENT.

PATTERSON

BT #8575

AB44

HNNN

IINCLASSIFIED

From:

ex.mail."LandbergCA@state.gov"

To:

ex.mail("DelareTL@state.gov", "WattsRM@state.gov", "...

Date:

3/9/00 5:21pm

Subject:

FW: MIGA guarantees for DR

As you can see in the attached document from Treasury, the MIGA Board will consider and vote on a DomRep power project on Tuesday, March 14. Treasury is asking State [(b)(5)]

Your comments are requested by early afternoon Friday. If there is a consensus that we do want to take this action, it seems to me that we would want to follow up on it, directly to the GODR and maybe to the DR Embassy, if only to lessen the perception that we're just being petty. I'm open to suggestions. Please pass this email to anyone else who should see it.

thanks, chris

----Original Message----

From: Greg.Christopulos@do.treas.gov [mailto:Greg.Christopulos@do.treas.gov] Sent: Tuesday, March 07, 2000 3:19 PM

To: LandbergCA@state.gov; wattsRm@state.gov

Cc: Gay.Sills@do.treas.gov; Gary.Sampliner@do.treas.gov Subject: MIGA guarantees for DR and Nicaragua -Forwarded

Date: 03/07/2000 03:17 pm (Tuesday)

From: Greg Christopulos

To: Landberg, wattsrm

CC: DOM3.DOPO6.SAMPLINERG, SILLSG

Subject: MIGA guarantees for DR and Nicaragua -Forwarded

[(b)(5)]

# 411141414444444444444

# UNCLASSIFIED

# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT



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15/19352

CAVEAT (S) =

HANDLE VIA

ACTION = [TRS]801 (1),G1 (1),IBRD (1), IDB (1), IDC (1), IDD (1), IMB (1) INL (1) . ITF (1) . ITI (1) . OIMF (1) . QC (1) . SEN (-) . UO (1)

CRC = F643

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FM AMEMBASSY SANTO DOMINGO

TO RUEHC/SECSTATE WASHDC IMMEDIATE 5886

INFO RUEHPU/AMEMBASSY PORT AU PRINCE 1548 RUCPDOC/USDOC WASHDC

RUEBBEA/USDOT WASHDC

UNCLAS SECTION B1 OF 82 SANTO DOMINGO 882724

SENSITIVE

DEPT PASS OPIC FOR M. PEREIRA AND M. MONHEIMER

DEPT PASS USDOT FOR MARAD

USDOC FOR 3134/USFCS/010/WH/RD

USDOC FOR 4322/ITA/IEP/WH/OHCB/SIEGELMAN

E.O. 12958: N/A

TAGS: ENRG EINV PREL DR

SUBJECT: SMITH-ENRON SETTLES ONCE AGAIN

REFTEL: SANTO DOMINGO 1439

1. SENSITIVE BUT UNCLASSIFIED. HANDLE ACCORDINGLY.

2. (SBU) SUMMARY: AFTER MORE THAN TWO YEARS OF NEGOTIATIONS, SMITH-ENRON SETTLED ITS ONGOING DISPUTE WITH THE CORPORATION DOMINICANA DE ELECTRICIDAD (CDE) ON JUNE 18. THE AGREEMENT RESOLVES ALL THE CLAIMS IN DISPUTE IN RETURN FOR A US\$26 MILLION ECONOMIC SETTLEMENT. THE PARTIES AGREED TO REVISE AND SIGN A NEW POWER PURCHASE AGREEMENT (PPA) BY JUNE 38. THIS IN TURN WILL BE SUBMITTED TO THE DOMINICAN CONGRESS FOR RATIFICATION. [(b)(4)]

SMITH-ENRON'S EXECUTIVE DIRECTOR UNDERLINES THAT THE U.S. MARITIME ADMINISTRATION PORTION OF THE DEBT WILL BE HIS FIRST PRIORITY. END SUMMARY.

...... SMITH-ENRON DISPUTE SETTLED

3. (U) IN A CLIFF HANGER IN WHICH CDE DEMANDED YET MORE REVISIONS OUTSIDE THE AGREED SCOPE OF THE NEGOTIATIONS. AND ENROW TABLED A HARSH THREAT TO WAIT FOR A RULING BY MID=199916682418

844829

15/19352

THE ARBITRATION PANEL, SMITH-ENRON SIGNED ITS SO-CALLED RATIFICATION AGREEMENT WITH CDE ON JUNE 18. THE AGREEMENT RESOLVES ALL THE CLAIMS IN DISPUTE UNDER THE ARBITRATION STILL ON-GOING IN MEXICO CITY IN CONSIDERATION FOR THE ECONOMIC SETTLEMENT NEGOTIATED IN MARCH. THE AGREEMENT ALSO RATIFIES THE FINAL MEMORANDUM OF UNDERSTANDING SIGNED BY THE TWO PARTIES IN DECEMBER 1998 WHICH WILL NOW FORM THE BASIS FOR THE PREPARATION OF A REVISED PP, THE NEXT STEP IN THE PROCESS. THE PARTIES HAVE AGREED TO FINALIZE AND SIGN THE REVISED PPA BEFORE JUNE 30.

- 4. (U) AS REPORTED REFTEL: IN MARCH CDE AGREED TO PAY US\$26 MILLION PLUS INTEREST IN SETTLEMENT OF THE THEN APPROXIMATELY US\$63 MILLION IN DISPUTE BETWEEN THE TWO PARTIES. THIS WAS BY FAR THE THE LARGEST PORTION OF CDE'S DISPUTED DEBT.
- 5. (U) FOR SHITH-ENRON: A KEY PROVISION IN THE RATIFICATION AGREEMENT IS THE ACKNOWLEDGMENT BY CDE OF THE SETTLEMENT AS UNDISPUTED DEBT THEREBY QUALIFYING IT FOR INCLUSION IN THE DISTRIBUTION FROM THE US\$78 MILLION FUND ESTABLISHED FOR THE PAYMENT OF IPP UNDISPUTED DEBT UNDER THE DEFINITIVE AGREEMENT SIGNED APRIL 13 BETWEEN ALL THE INDEPENDENT POWER PRODUCERS (IPPS), CDE, THE COMMITTEE FOR THE REFORM OF PUBLIC SECTOR COMPANIES (THE CREP), AND THE TECHNICAL SECRETARIAT ON BEHALF OF THE GODR. THIS ACKNOWLEDGEMENT PRESERVES THE EXISTING US\$24 MILLION LETTER OF CREDIT FOR THE PROJECT WHICH IS IMPORTANT TO SMITH-ENRON'S LENDERS. THIS DEVELOPMENT IS NOT SEEN AS FAVORABLY BY OTHER IPPS WHO SEE THEIR SLICE OF THE US\$78 MILLION PIE GETTING SMALLER.

....... THE PROJECT WILL DEFAULT NONETHELESS -----

[(b)(4), (b)(6)]

DISCO/GENCO CLOSING

7. (SBU) THE MONIES FROM THE US\$78 FUND WILL EVENTUALLY RELIEVE SMITH-ENROW'S DIFFICULTIES BUT THEY WILL NOT BECOME AVAILABLE UNTIL THE CAPITALIZATION CLOSING DATES OF THE NEW DISCOS AND GENCOS. CREP PRESIDENT ISA CONDE RECENTLY VOLUNTEERED IN A CONVERSATION WITH AN ENRON REPRESENTATIVE THAT THE DISCO CLOSING WILL NOT OCCUR

# UNCLASSIFIED

### DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

15/19357



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BEFORE JULY 1. OTHER SOURCES HERE BELIEVE IT IS LIKELY
TO OCCUR BETWEEN JULY 1 AND 15. THE GENCO CLOSING WILL
FOLLOW

8. (SBU) OTHER IPP SOURCES HAD RECENTLY EXPRESSED THEIR CONCERN TO ECONOFF THAT ENRON WOULD TRY TO POSTPONE THE GENCO CLOSING BECAUSE OF DIFFICULTIES WITHIN ITS CONSORTIUM (LED BY SEABOARD) AND IN GETTING FINANCING. THESE SOURCES ALSO BELIEVED THAT ENRON WOULD RESIST UNCLAS SECTION 82 OF 82 SANTO DOMINGO 882724

#### SENSITIVE

DEPT PASS OPIC FOR M.PEREIRA AND M. MONHEIMER DEPT PASS USDOT FOR MARAD USDOC FOR 3134/USFCS/OIO/MH/RD USDOC FOR 4322/ITA/IEP/MH/OMCB/SIEGELMAN

E.O. 12958: N/A TAGS: ENRG EINV PREL DR SUBJECT: SMITH-ENRON SETTLES ONCE AGAIN

closing in order to maintain its leverage in pushing for a smith-enron settlement. The settlement, however, obviates one of these difficulties. [(b)(6)]

THAT HE HAD SPOKEN AT LENGTH THE AFTERNOON OF JUNE 18 WITH A GERMAN BANKER WHO HAD COMMENTED TO HIM THAT THE SETTLEMENT WILL MAKE THE FINANCING OF ANY POWER SECTOR PROJECT IN THE DOMINICAN REPUBLIC MORE ATTRACTIVE.

[(b)(4)]

9. (SBU) THE DISCO/GENCO CLOSINGS ARE UNLIKELY TO HAPPEN IN THE NORMAL 38 DAY PERIOD SMITH-ENROW MILL HAVE TO "CURE" THE DEFAULT. IN THESE CIRCUMSTANCES, [(b)(4),(b)(6)]

MID=199916682418

844829 15/19352

18. (SBU) THE FINAL STEP IN THE RESOLUTION OF THE SMITH-ENRON DISPUTE WILL BE THE SUBMISSION OF THE REVISED CONTRACT TO THE CONGRESS. WHEN ASKED IF HE WAS CONCERNED ABOUT THE RECEPTION IT IS LIKELY TO GET IN THE CONGRESS, [(b)(6)] THE EXPECTS NO DIFFICULTIES. [(b)(4), (b)(6)]

#### COMMENT

11. (SBU) THIS SETTLEMENT IS A SUBSTANTIAL VICTORY FOR SMITH-ENRON AND FOR CDE. [(b)(6)] THAT IT HAS SOVED A DIFFICULT PROBLEM FOR ENRON BOTH IN TERMS O ITS INTERNATIONAL IMAGE AND ITS ABILITY TO CONTINE TO PARTICIPATE IN THE ATTRACTIVE DOMINICAN POWR MARKET. [(b)(6)] DMITTED THAT ENRON WOULD NOTHAVE GONE THROUGH WITH THE GENERADORA HAIMA PROJCT IN THE ABSENCE OF THIS SETTLEMENT. [(b)(4), (b)(6)]

12. (U) [(b)(6)] THE SETTLEMENT WILL ALSO LESSEN INVESTOR CONCERNS ABOUT FINANCING DOMINICAN POWER SECTOR PROJECTS. THESE CONGERNS ARE NOT LIKELY TO BE COMPLETELY ALLEVIATED UNTIL AFTER THE DISCO/GENCO SETTLEMENTS YIELD THE US\$78 MILLION FUND; PAYMENTS ARE MADE OUT OF THE FUND; AND THE ESCROW ACCOUNT FACILITY IS SET UP FOR PAYMENT OF THE REMAINING IPP DEBT. THE SETTLEMENT IS, NOWEVER, ANOTHER MAJOR STEP IN THE RIGHT DIRECTION.

[(b)(5), (b)(6)]

WATT BT #2724

FINAL STEP IN DISPUTE RESOLUTION

and

# UNCLASSIFIED

# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

DR

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38/88172

CAVEAT (S) = HANDLE VIA

ACTION = (TRS)BOI (1) + GI (1) + IBRD (1) + IDB (1) + IDC (1) + IMB (1) + IML (1)

ITF (1) + ITI (1) + OIMF (1) + QC (1) + SEN (-) + UO (1)

CRC = A485

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UNCLAS SECTION B1 OF B2 SANTO DOMINGO BB1687

DEPT PASS OPIC FOR M.PEREIRA AND M.MONHEIMER USDOC FOR 3134/USFCS/OIO/WH/RD USDOC FOR 4322/ITA/IEP/WH/OMCB/SIEGELMAN

SENSITIVE

E.O. 12958: N/A

TAGS: ENRG EINV PREL DR

SUBJECT: SMITH ENRON DEAL IN DANGER

1. SENSITIVE BUT UNCLASSIFIED. HANDLE ACCORDINGLY.

2. (SBU) SUMMARY: THE DEAL WORKED OUT BETWEEN INDEPENDENT POWER PRODUCER SMITH EHRON AND THE CORPORACION DOMINICANA DE ELECTRICIDAD (CDE) ON MARCH 12 IS IN DANGER OF UNRAVELING. [(b)(4)]

THE IFC HAS ORGANIZED A TELECONFERENCE ON MARCH 38 BETWEEN THE LENDERS AND CDE. AN OFFICIAL FROM THE COMMISSION FOR THE REFORM OF PUBLIC SECTOR COMPANIES (CREP) WILL ALSO PARTICIPATE IN THAT CALL TO ARGUE THAT THE MOU SIGNED FEBRUARY 18 BETWEEN THE INDEPENDENT POWER PRODUCERS AND THE CREP WILL CONSTITUTE A SUFFICIENT GUARANTEE FOR THE LENDERS. END SUMMARY.

3. (SBU) SMITH ENRON [(b)(6)]
REPORTED ON MARCH 26 THAT THE DEAL BETWEEN SMITH ENRON
AND THE CORPORATION DOMINICANA DE ELECTRICIDAD (CDE),
WORKED OUT IN WASHINGTON ON MARCH 12 UNDER THE AUSPICES
OF THE INTERNATIONAL FINANCE CORPORATION (IFC), IS IN
DANGER OF UNRAVELING. SINCE THE MARCH 12 MEETING THE

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PARTIES HAVE BEEN ENGAGED IN THE NEGOTIATION OF A
RATIFICATION AGREEMENT FOR THE FINAL MOU AND FINANCIAL
SETTLEMENT. THESE NEGOTIATIONS ARE NEARING BREAKDOWN

[(b)(4)]

BACKGROUND

4. (SBU) [(b)(6)] IN THE ORIGINAL LOAN AGREEMENTS: THE LENDERS WANTED AS SECURITY CERTAIN CONDITIONS AND GUARANTEES. [(b)(4)]

CDE PROPOSAL REMOVES IMPORTANT FINANCIAL GUARANTEE

[(b)(4)]

THIS LATTER

PROVISION (I.E. THE PROPOSAL THAT A RENEWED LETTER OF CREDIT WOULD NOT BE ISSUED FOR THE REVISED CONTRACT) HAD NOT PREVIOUSLY BEEN PROPOSED BY CDE. THE IFC HAS NOTIFIED SMITH ENRON THAT IF THAT FINANCIAL GUARANTEE VANISHES, THE IFC WILL NOT GIVE THEIR BLESSING TO ANY CHANGE IN THE POWER PURCHASE AGREEMENT.

7. (SBU) IN THE ABSENCE OF THE LETTER OF CREDIT, ACCORDING TO THE LOAN AGREEMENT. SMITH ENRON WOULD THEN HAVE THE RESPONSIBILITY TO BUILD UP ITS RESERVE FUNDS ON THE BOOKS. IT IS CURRENTLY REQUIRED TO HAVE APPROXIMATELY US\$18 MILLION ON RESERVE [(b)(4)]

UNCLASSIFIED

# UNCLASSIFIED

# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

PAGE 82 OF 82 MID=199988988128 877872 38/88172 [(b)(4)] The reserve funds would have to be built up to us335 million.

# CREP TO THE RESCUE?

8. (SBU) [(b)(6)]LLED ON CREP PRESIDENT ANTONIO ISA CONDE LATE ON FRIDAY, MARCH 26. IN THEIR DISCUSSION, UNCLAS SECTION 82 OF 82 SANTO DOMINGO 881687

DEPT PASS OPIC FOR M. PEREIRA AND M. MONHEIMER USDOC FOR 3134/USFCS/010/WH/RD USDOC FOR 4322/ITA/IEP/WH/OMCB/SIEGELMAN

#### SENSITIVE

E.O. 12958: N/A TAGS: ENRG EINV PREL DR SUBJECT: SMITH ENRON DEAL IN DANGER

[(b)(4)]

#### COMMENT

9. (SBU) ALTHOUGH THE ISSUES OF RATIFICATION (OR NOT) BY THE DOMINICAN CONGRESS AND THE TIMING OF SUSPENSION OR WITHDRAWAL FROM THE ON-GOING ARBITRATION ARE TOUGH ONES. THE LETTER OF CREDIT ISSUE SEEMS HOST LIKELY TO BE A FINAL DEALBREAKER. [(b)(4), (b)(6)]

WATT BT #1687 A486 NANN

UNCLASSIFIED

Author: [(b)(6)] Date: 4/27/98 1:33 PM

Priority: Normal

[(b)(6)]

Subject: Power Plant Seizure Update No.2

Below please find my translation of a press release issued today by the CDE.

Press Release April 27, 1998

The Administrator General of the Dominican Electricity Corporation (CDE), Engineer Rhadamés Segura, assured yesterday that the reinforcement of the security in the installations of the Los Mina Plants V and VI of the AES Dominican Power was his responsibility as it was a decision taken by himself.

The executive manifested that said private generator had acted in an irrational manner in recent days by drastically reducing it's production as a form of pressure in order to collect a debt that the energy company of the State had never denied to pay.

Segura expressed that he authorized a reinforcement of security at midday Friday at the installations of AES Dominican Power on the basis that their attitude and threat to take out their generators from service was acting in detriment of the national interest and against the security of the State.

In a press conference celebrated in the Conference Room of the CDE, Engineer Segura, in reference to the supposed intervention of north American embassy in the impasse arisen between the parties, stated that this diplomatic legation does not support the contract noncompliance that said private generator practiced for which reason he said that he could not explain why the media gave the subject the treatment that does not correspond to the intentions of this administration.

He pointed out that when he has met with representatives of the US Embassy in various opportunities, there has always existed a spirit of cordiality and respect and for that reason he did not believe that the same entity will call the National Palace to intervene in a conflict arising between the two electric companies.

He insured that historically the AES Dominican Power had presented a problem for the CDE given the constant problems that have occurred in their two generators and additionally that in the past they had failed to live up to promises made about returning to service after confronting technical difficulties.

Regarding the military personnel that went to reinforce the security in the installations of the two generators of the AES Dominican Power, Segura stated that he gave instructions to the General Supervisor of the CDE, Contralmirante José Peña y Peña to act in that fashion. First, Coronel Luis Felipe Martinez Scott of the Naval marines was sent with soldier Miguel Sosa Tolentino and that later Captain Martin Muñoz Jimenez was sent with a leiutenant and a sargent followed ten minutes later by two more officers.

In relation to the functioning of the two generators being referred to,

the attached graphic (Not Obtained), the supply of electricity was only 51.7% of the contracted energy. this signifies that the plant failed to supply some 224.42 millions of kilowatt hours during the months of January to March of this year equivalent to an economic loss in detriment to the national economy of some US\$ 56.1 millions which is called the cost of energy not served in economic terms.

Segura pointed out that neither the CDE nor the Dominican Government have pressured the AES Dominican Power for these serious contractual failures even though in a meeting celebrated by the President of the Republic, Dr. Leonel Fernández Reyna, with representatives of said firm and with the American Embassy, the same company promised to have available the two units by February 27th of this year, a promise that was not kept, only one unit being on line at that date.

Ing Segura indicated that on April 24th operations at the Plant Los Mina abruptly dropped their contribution to national power from 105MV to 50MW, an act that provoked unprogrammed interruptions in the distribution system.

Communications Director.

This press release was followed by a legal statement on the subject which has been translated by Cesarina and will be distributed shortly as LEGAL STATEMENT RE MILITARIZATION.

Saludos, [(b)(6)]

## CDE'S LEGAL STATEMENT - RE: MILITARIZATION

# CDE'S LETTERHEAD PAPER CORPORACIÓN DOMINICANA DE ELECTRICIDAD

The Corporación Dominicana de Electricidad (CDE) signed a contract of purchase-sale of energy with the firm Dominican Power Partners (AES). In conformity with said contract, we are in front of what in law is denominated "A concession of Public Service", which is when it is given, during a determined time period the management of a public service to a private enterprise, which then becomes a collaborator of CDE's Administration, to whose control it remains subject, and that is paid by means of energy invoices submitted to the users of the service. Consequently what AES is providing is a public service, which, in written sense, is now under the special judicial regulations, which imply for CDE's Administration a series of prerogatives and powers aside from the common rights, with the purpose to make easier the continuous and regular management of this public enterprise.

It is denominated as Service of Public Utility, to certain lucrative activities, that are performed by particular persons, but that, for their need for the public, must be submitted to a regime of vigilance and tutelage by the Estate, that is capable of assuring in every moment its maintenance, continuity, efficiency and its fair price.

This service is submitted to a formal and specific legislation, contained in the Law No. 848, dated February 23, 1933, on the performance of the services of Public Utility. Articles 1 and 6 of said law, establish textually the following:

Art. 1 - The performance of all Public Utility Services shall be under the super vigilance and the control of the state, as Services of Public Utility will be considered, the supply of electricity for lighting, energy or other purposes, the supply of water, the services of Telephones, Telegraphs, Radiotelegraphs and the others for which purpose and nature are declared included in this category by the Executive Power.

Art. 6. - All interruption or suspension of a service, that by its nature should be "CONTINUOUS", that could cause the damage to the public order or to the health of the population, will be punished with a fine of fifty to five hundred pesos, when the company that provides it is not able to demonstrate that the interruption or suspension is not due to its own fault, but to unknown causes that could not have been solved by the appropriate means. The judges will issue the fines according to the seriousness of the circumstances and the time of the interruption. If the interruption or suspension be definitive or too frequent, the Executive Power is entitled to act, for/by recommendation of the Public Service Commission, the cancellation of the authorization provided for the establishment of the service in question.

This Press Release is signed by CDE's Administrator, Radhamés Segura March 27, 1994

## PRIORITY

## UNCLASSIFIED

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## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

POLITICAL PURPOSES.



PAGE Ø1

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842686 82/11822

CAVEAT (S) = HANDLE VIA

ACTION = ETRS1BOI (1) , CALL (3) , GIUN (1) , IDB (1) , IDC (1) , IMB (1) , ITF (1) ITI (1) , OIMF (1) , QC (1) , SEN (-)

CRC = 4887

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FM AMCONSUL MUMBAI
TO RUEHC/SECSTATE WASHDC PRIORITY 8883
INFO RUEHNE/AMEMBASSY NEW DELHI 5458
RUEHNEC/AMCONSUL CALCUTTA 8932
RUEHCG/AMCONSUL CHENNAI 3399
RUEATRS/TREASDEPT WASHDC
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STATE PASS EXIMBANK FOR HUTCHINSON AND RITA MURRELL

STATE PASS OPIC FOR MICHAEL LANDRY STATE PASS USTR FOR RICK RUZICKA STATE PASS SEC FOR MARISA LAGO TREASURY FOR MALACHY NUGENT

USDOC FOR 3131/010/ANESA/RMARRO USDOC FOR 4538/MAC/OSAO/RHARDING USDOC FOR 6888/ITA/TD/AC/TSCHUNG

SENSITIVE E. Ø. 12958: N/A

UNCLAS MUMBAI 82367

TAGS: ECON, EINV, PGOV, IN

SUBJECT: THE POLITICS OF POMER: WILL THE NEW MANARASHTRA
GOVERNMENT REVIEW THE TERMS OF ENRON PHASE 11?

(SBU) ALMOST IMMEDIATELY AFTER THE NEW MAHARASHTRA GOVERNMENT WAS FORMED, THE MEDIA BEGAN PLAYING UP REPORTS THAT THE NEW CHIEF MINISTER WAS READY TO CALL FOR AN IMMEDIATE REVIEW OF PHASE II OF ENRON'S DABHOL POWER PROJECT. THE CONGRESS PARTY HAD PROMISED, IF ELECTED, TO REVIEW EMRON PHASE II, WHICH HAD RECEIVED THE GO-AHEAD FROM THE SHIV SENA/BJP GOVERNMENT. WITH THE GOVERNMENT STILL FINDING ITS LEGS, WE HAVE NOT BEEN ABLE TO MAKE CONTACT WITH ANY OF THE RELEVANT OFFICIALS. BUT CHIEF MINISTER DESHMUKH TOLD THE HEAD OF A LEADING INDIAN CONSULTING FIRM IN A ONE-ON-ONE MEETING THAT STATEMENTS ABOUT A REVIEW WERE NO MORE THAN POLITICAL WINDOW DRESSING. MEANWHILE, ENRON'S PUBLIC RELATIONS MANAGER, BRINDA WALAVALKAR, SAID THE COMPANY HAS SEEN NO INDICATIONS THAT A REVIEW IS IMMINENT. SHE ATTRIBUTES THE SPATE OF MEDIA STORIES TO THE PRESS'S DETERMINATION TO CREATE A STORY DURING THE LULL THAT HAS ACCOMPANIED THE FORMATION OF THE GOVERNMENT. SHE NOTES THAT THE CHIEF MINISTER NEVER BROUGHT UP ENRON INDEPENDENTLY, BUT ONLY MENTIONED IT IN RESPONSE TO REPORTERS' QUESTIONS. SHE BELIEVES THAT MID=199930600925 042606 02/11022 UNDER PRESSURE FROM REPORTERS, THE CHIEF MINISTER HAD TO REAFFIRM HIS PROMISE TO "REVIEW" PHASE II, BUT IS NOT INTENT ON USING IT FOR

2. (SBU) COMMENT: FROM ITS INCEPTION MORE THAN SIX YEARS AGO, ENRON HAS SERVED AS A POLITICAL LIGHTNING ROD -- THE FOCUS OF PROTESTS FROM MANY QUARTERS. THOUGH ENROW SUCCESSFULLY OVERCAME ALL THE POLITICAL AND LEGAL CHALLENGES, IT STILL REMAINS A POTENT POLITICAL SYMBOL FOR MANY. AS SUCH, IT WAS AN EASY ONE FOR CONGRESS TO THROW INTO ITS GRAB BAG OF PRE-ELECTION PROMISES. THE NEW GOVERNMENT MAY FEEL COMPELLED TO "REVIEW" PHASE II, BUT IN THE END, IT IS UNLIKELY TO THROW A WRENCH INTO THE WORKS. AFTER ALL, IT WAS THE CONGRESS GOVERNMENT THAT APPROVED ENRON PHASE I AND NCP PARTY CHIEF SHARAD PAWAR HAS ALWAYS BEEN A SUPPORTER OF ENRON. ANOTHER FACTOR THAT IS LIKELY TO BODE WELL FOR ENROW IS THAT CHALLENGES USUALLY COME FROM THE OPPOSING POLITICAL PARTY. IN THIS CASE, THE SAFFRON ALLIANCE (BJP/SHIV SENA) IS ALREADY ON BOARD THE ENRON BANDWAGON, HAVING SUCCESSFULLY RENEGOTIATED THE FINANCIAL TERMS OF ENRON PHASE I AND CLAIMING CREDIT FOR BRINGING THAT PHASE TO COMPLETION. SIMILARLY, THE CONGRESS/NCP ALLIANCE WILL MOST LIKELY WANT TO CLAIM CREDIT FOR THE COMPLETION OF PHASE 11. RENEGOTIATING THE TERMS WOULD ONLY STALL THE PROJECT AND BRING INTO QUESTION WHY CONGRESS APPROVED ENROW IN THE FIRST PLACE ON TERMS "ALLEGEDLY" MORE FAVORABLE TO ENRON THAN THE CURRENT ONES.

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UNCLAS SECTION 01 OF 04 ANKARA 008414

STATE PASS TO EX-IM BANK FOR JULIE PANARO STATE PASS TO OPIC FOR ATARBUSH, BTREADWELL, CENGSTROM STATE PASS TO TDA FOR DSTEIN

USDOC FOR 6000/ITA/TD/AS/AC/JBRANDES/TSCHUNG USDOC FOR 3150/USFCS/OIO/EUR/PBRADLEY/CPOZA USDOC FOR 4212/ITA/MAC/OEURA/CPD/DDEFALCO USDOC FOR 6110/ITA/TD/OBI/OEIM/MBEEMAN

E.O. 12958: N/A
TAGS: ENRG, BTIO, EINV, EXIM, TU
SUBJECT: U.S. ENERGY PROJECTS IN TURKEY - THE YEAR IN
REVIEW

1. OVER THE LAST SEVERAL YEARS, THE U.S. EMBASSY IN ANKARA HAS COORDINATED AN ALL OUT USG, INTER-AGENCY EFFORT TO ADVOCATE ON BEHALF OF U.S. FIRMS IN THEIR PURSUIT OF POWER PROJECTS IN TURKEY. WITH THE HELP OF THE ADVOCACY CENTER, WE HAVE TAPPED INTO THE HIGHEST LEVELS AT COMMERCE, STATE, ENERGY, EXIM, OPIC, TDA, THE NSC AND ELSEWHERE TO GARNER THE SUPPORT THE AMERICAN COMPANIES NEEDED TO COME THIS FAR. TELEPHONE CALLS, OFFICE CALLS, FAXES, ENERGY WORKING GROUPS, BILATERALS, THE JOINT ECONOMIC COMMISSION, TRADE AND INVESTMENT FRAMEWORK AGREEMENT, JOINT STATEMENTS, AND A PRESIDENTIAL VISIT HAVE ALL PLAYED KEY ROLES IN THE SUCCESSES OF OUR U.S. FIRMS. WHILE THESE COMPANIES WILL CONTINUE TO SEEK OUR HELP TO OVERCOME HURDLES ON THE ROAD AHEAD, WE SHOULD CONGRATULATE THEM ON THEIR PATIENCE AND PERSEVERANCE WHICH HAS MADE 2000 A VERY SUCCESSFUL YEAR FOR U.S. ENERGY INTERESTS IN TURKEY. THE FOLLOWING U.S. PROJECTS WILL PLAY A MAJOR PART IN GUARANTEEING TURKEY'S ABILITY TO MEET ITS ENERGY NEEDS WELL INTO THE TWENTY-FIRST CENTURY.

TURNKEY DAM AND HYDROELECTRIC POWER PLANT PROJECTS (HEPP)

2. IN FEBRUARY 1998, U.S. SECRETARY OF COMMERCE WILLIAM DALEY AND TURKEY'S MINISTER OF ENERGY AND NATURAL RESOURCES SIGNED A JOINT STATEMENT FOR THE DEVELOPMENT OF 9 DAM AND HYDROELECTRIC POWER PROJECTS IN TURKEY, DURING PRESIDENT CLINTON'S NOVEMBER 1999 VISIT TO TURKEY, SECRETARIES ALBRIGHT AND RICHARDSON WITNESSED THE CONTRACT SIGNINGS FOR FIVE OF THESE PROJECTS: THREE FOR THE DESIGN/ENGINEERING OF THE HAKKARI, ALPASLAN II AND KONAKTEPE HYDRO PROJECTS AND TWO FOR THE CONSTRUCTION, OF THE KARGI AND GURSOGUT HYDRO PROJECTS. SUBSEQUENTLY, DURING THE COURSE OF THIS YEAR, U.S. COMPANIES HAVE ALSO SIGNED CONTRACTS FOR THE ENGINEERING/DESIGN OF THE ERIC, PERVARI AND DURAK DAM AND HYDRO PROJECTS. THESE PROJECTS

ARE WELL ON THEIR WAY TO OBTAINING ALL NECESSARY GOT APPROVALS TO CONCLUDE THEIR FINANCING WITH TURKISH TREASURY.

#### PROJECTS INCLUDE:

PROJECT: HAKKARI DAM AND 208 MW HYDROELECTRIC POWER PLANT
COMPANY: WASHINGTON GROUP INTERNATIONAL (FORMERLY RAYTHEON)
STATUS: CONTRACT SIGNED. FINANCIAL AGREEMENT SIGNED, AWAITING COUNCIL OF MINISTERS APPROVAL. SURVEY WORK COMPLETED IN OCTOBER 2000. COMPLETION OF DESIGN AND ENGINEERING EXPECTED IN 2001. CONSTRUCTION TO BEGIN IN 2002.

PROJECT: ALPASLAN II DAM AND 200 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANIES: ICF KAISER AND HARZA ENGINEERING
STATUS: CONTRACT SIGNED. FINANCIAL AGREEMENT TO BE
SIGNED SOON. COMPLETION OF DESIGN AND ENGINEERING
EXPECTED IN 2001. CONSTRUCTION TO BEGIN IN 2002.

PROJECT: KONAKTEPE DAM AND 210 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANY: STONE & WEBSTER INTERNATIONAL
STATUS: CONTRACT SIGNED. FINANCIAL AGREEMENT TO BE
SIGNED SOON. COMPLETION OF DESIGN AND ENGINEERING
EXPECTED IN 2001. CONSTRUCTION TO BEGIN IN 2002.

PROJECT: KARGI DAM AND 194 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANY: BLACK AND VEATCH
STATUS: CONTRACT SIGNED. INITIAL APPROVAL OF THE STATE
PLANNING ORGANIZATION GRANTED. AWAITING FINAL APPROVAL TO
BEGIN NEGOTIATIONS WITH TREASURY. CONSTRUCTION TO BEGIN
IN 2001.

PROJECT: GURSOGUT DAM AND 242 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANY: LEMNA INTERNATIONAL
STATUS: CONTRACT SIGNED. INITIAL APPROVAL OF THE STATE
PLANNING ORGANIZATION GRANTED. AWAITING FINAL APPROVAL TO BEGIN NEGOTIATIONS WITH TREASURY. CONSTRUCTION TO BEGIN IN 2001.

PROJECT: PERVARI DAM AND 192 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANIES: PARSONS AND ICF KAISER
STATUS: CONTRACT SIGNED. ACCORDING TO STATE PLANNING
OFFICIALS, PROJECT IS INCLUDED IN THE TURKISH
GOVERNMENT'S 2001 INVESTMENT PROGRAM. FINANCIAL
NEGOTIATIONS WITH TREASURY TO FOLLOW. DESIGN/ENGINEERING
IN 2001 AND BEGIN CONSTRUCTION IN 2002.

PROJECT: ERIC DAM AND 170 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANY: BLACK & VEATCH
STATUS: CONTRACT SIGNED. ACCORDING TO STATE PLANNING
OFFICIALS, PROJECT IS INCLUDED IN THE TURKISH
GOVERNMENT'S 2001 INVESTMENT PROGRAM. FINANCIAL
NEGOTIATIONS WITH TREASURY TO FOLLOW. DESIGN/ENGINEERING
IN 2001 AND BEGIN CONSTRUCTION IN 2002.

PROJECT: DURAK DAM AND 120 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANIES: HARZA ENGINEERING, CLARK CONSTRUCTION STATUS: CONTRACT SIGNED. ACCORDING TO STATE PLANNING OFFICIALS, PROJECT IS INCLUDED IN THE TURKISH GOVERNMENT'S 2001 INVESTMENT PROGRAM. FINANCIAL

NEGOTIATIONS WITH TREASURY TO FOLLOW. DESIGN/ENGINEERING IN 2001 AND BEGIN CONSTRUCTION IN 2002.

PROJECT: MUT DAM AND 91 MW HYDROELECTRIC POWER PLANT PROJECT
COMPANY: WASHINGTON GROUP INTERNATIONAL (FORMERLY MORRISON KNUDSEN INTERNATIONAL)
STATUS: DUE TO MERGER OF MORRISON KNUDSEN INTERNATIONAL WITH WASHINGTON GROUP INTERNATIONAL, THE CONSORTIUM HAS NOT YET BEGUN NEGOTIATIONS FOR THE DESIGN/ENGINEERING CONTRACT WITH DSI. ACCORDING TO STATE PLANNING OFFICIALS, PROJECT IS INCLUDED IN THE TURKISH GOVERNMENT'S 2001 INVESTMENT PROGRAM. FINANCIAL NEGOTIATIONS WITH TREASURY TO FOLLOW. DESIGN/ENGINEERING IN 2002 AND BEGIN CONSTRUCTION IN 2003.

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3. DURING PRESIDENT CLINTON'S NOVEMBER 1999 VISIT TO TURKEY, UNDERSECRETARY YIGITGUDEN OF THE MINISTRY OF ENERGY AND NATURAL REOURCES AND ASSISTANT SECRETARY OF COMMERCE FOR TRADE DEVELOPMENT COPPS SIGNED A JOINT STATEMENT FOR THE TURNKEY DESIGN AND CONSTRUCTION OF THE SURUC IRRIGATION NETWORK. AMERICAN AND TURKISH FIRMS WILL IMPLEMENT THE PROJECT, AT A COST OF OVER USD 650 MILLION, WHICH INCLUDES A NETWORK TO IRRIGATE APPROXIMATELY 100,000 HECTARES OF LAND. UNTIL NOW, 24 AMERICAN AND TURKISH CONSORTIA HAVE EXPRESSED INTEREST IN THE PROJECT. THE EMBASSY IS WORKING WITH THE GOT TO IDENTIFY A PROCESS BY WHICH TO SELECT THE WINNING CONSORTIA.

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4. IN 1997, THE TURKISH ELECTRICITY GENERATION AND TRANSMISSION COMPANY (TEAS) AWARDED FIVE BUILD-OPERATE (BO) PROJECTS IN GEBZE, ADAPAZARI, IZMIR, ANKARA AND ISKENDERUN. INTERGEN, A BECHTEL-SHELL JOINT VENTURE, WON THREE OF THESE PROJECTS AND IS DUE TO COMPLETE THEIR WORK AND COMMISSION THE PLANTS WELL AHEAD OF SCHEDULE. THE EMBASSY WORKED CLOSELY WITH INTERGEN, U.S. EXIMBANK AND OPIC TO ENSURE THAT THE FIRM IS ABLE TO MEET ITS AGGRESSIVE IMPLEMENTATION PROGRAM. EXIMBANK WILL FINANCE OVER USD 900 MILLION WORTH OF U.S. EQUIPMENT AND SERVICES AND OPIC USD 300 MILLION OF U.S. INVESTMENT FOR ALL THREE PROJECTS.

#### PROJECTS INCLUDE:

PROJECT: ADAPAZARI 777 MW NATURAL GAS FIRED POWER PLANT PROJECT COMPANY: INTERGEN (BECHTEL/SHELL JOINT VENTURE) STATUS: GROUNDBREAKING CEREMONY HELD ON JULY 19, 2000. POWER PLANT TO BEGIN COMMERCIAL OPERATION IN 2002.

PROJECT: GEBZE 1554 MW NATURAL GAS FIRED POWER PLANT PROJECT COMPANY: INTERGEN STATUS: GROUNDBREAKING CEREMONY HELD ON JULY 19, 2000. POWER PLANT TO BEGIN COMMERCIAL OPERATION IN 2002.

PROJECT: IZMIR 1523 MW NATURAL GAS FIRED POWER PLANT
PROJECT
COMPANY: INTERGEN
STATUS: GROUNDBREAKING CEREMONY WILL BE HELD IN JANUARY
2001. POWER PLANT TO BEGIN COMMERCIAL OPERATION IN 2002.

 5. DURING THE 1990S, THE MINISTRY OF ENERGY AND NATURAL RESOURCES AWARDED HUNDREDS OF BUILD-OPERATE-TRANSFER (BOT) PROJECTS TO TURKISH AND FOREIGN FIRMS. IN LATE 1998, U.S. COMPANIES, ENRON AND EDISON MISSION COMPLETED AND BEGAN OPERATION OF THE TRAKYA ELEKTRIK AND DOGA ENERII BOT GAS-FIRED POWER PLANTS, RESPECTIVELY. DURING PRESIDENT CLINTON'S NOVEMBER 1999 VISIT TO TURKEY, AMERICAN CONSORTIA SIGNED CONTRACTS FOR TWO MORE BOT GASFIRED POWER PLANT PROJECTS. IN ADDITION, ANOTHER U.S. FIRM CONTINUES TO TRY TO OBTAIN APPROVAL FOR A COAL-FIRED POWER PLANT PROJECT.

#### PROJECTS INCLUDE:

PROJECT: ESKISEHIR 200 MW NATURAL GAS-FIRED POWER PLANT PROJECT
COMPANIES: AES, GVA
STATUS: CONTRACT SIGNED. COUNCIL OF MINISTERS APPROVED
THE PROJECT WITH A DECREE ON 11/3/00. COMPLETION OF
FINANCIAL PACKAGE EXPECTED IN EARLY 2001, WITH START OF
CONSTRUCTION TO FOLLOW IMMEDIATELY. COMMERCIAL OPERATION
EXPECTED BY END OF 2002.

PROJECT: 206 MW ZONGULDAK ALAPLI (ATAM ELEKTRIK) NATURAL GAS-FIRED POWER PLANT PROJECT COMPANIES: GE POWER SYSTEMS AND GE CAPITAL STATUS: CONTRACT SIGNED. COUNCIL OF MINISTERS APPROVED THE PROJECT WITH A DECREE ON 10/28/00. COMPLETION OF FINANCIAL PACKAGE EXPECTED IN EARLY 2001, WITH START OF CONSTRUCTION TO FOLLOW IMMEDIATELY. COMMERCIAL OPERATION EXPECTED BY END OF 2002.

PROJECT: 500 MW KONYA ILGIN POWER PLANT AND MINING PROJECT COMPANIES: PSEG, NORTH AMERICAN COAL STATUS: PSEG AND MENR HAVE A NUMBER OUTSTANDING ISSUES, ON WHICH THEY DO NOT AGREE, AFFECTING THE FINANCIABILITY OF THE PROJECT. PSEG SUBMITTED ITS FINAL PROPOSAL TO MENR AT THE END OF OCTOBER 2000. PROJECT SHOWS LITTLE MOVEMENT. THE EMBASSY CONTINUES TO ADVOCATE ON BEHALF OF PSEG AND NORTH AMERICAN COAL.

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6. THE TURKISH ELECTRICITY GENERATION AND TRANSMISSION COMPANY (TEAS) HELD A TENDER IN 1996, TO TRANSFER THE OPERATING RIGHTS OF 12 EXISTING POWER PLANTS FOR 20 YEARS TO THE TURKISH AND FOREIGN PRIVATE SECTOR. A CONSORTIUM LED BY U.S. FIRM NRG WON TWO OF THE TEN. THESE PROJECTS APE:

PROJECT: 620 MW SEYITOMER COAL-FIRED POWER PLANT
COMPANY: NRG
STATUS: CONTRACT SIGNED. COUNCIL OF MINISTERS APPROVED
THE PROJECT WITH A DECREE ON 07/18/00. NRG INITIALED ITS
AGREEMENTS WITH TEAS IN DECEMBER 2000 AND DELIVERED THEM
TO TURKISH TREASURY FOR REVIEW. COMPLETION OF FINANCING
EXPECTED BY THE END OF MARCH 2001.

PROJECT: 457 MW KANGAL COAL-FIRED POWER PLANT
COMPANY: NRG
STATUS: CONTRACT SIGNED. COUNCIL OF MINISTERS APPROVED
THE PROJECT WITH A DECREE ON 08/09/00. NRG INITIALED ITS
AGREEMENTS WITH TEAS IN DECEMBER 2000 AND DELIVERED THEM
TO TURKISH TREASURY FOR REVIEW. COMPLETION OF FINANCING
EXPECTED BY THE END OF MARCH 2001.

 THE TURKISH MININSTRY OF ENERGY AND NATURAL RESOURCES (MENR) HELD A TENDER IN 1997, TO TRANSFER THE OPERATING









ENERGY DIVISION

RIGHTS OF 25 ELECTRICITY DISTRIBUTION GRIDS FOR A PERIOD OF 30 YEARS TO THE TURKISH AND FOREIGN PRIVATE SECTOR.
MENR AWARDED ONE TENDER TO A CONSORTIUM INCLUDING HOWARD ENERGY.

PROJECT: BURSA-YALOVA ELECTRICITY DISTRIBUTION
COMPANY: HOWARD ENERGY
STATUS: CONTRACT SIGNED BUT AWAITS COUNCIL OF STATE,
DANISTAY, APPROVAL. COURT HEARING ON THE VALIDITY OF
CONTRACT HELD ON OCTOBER 3, 2000, RESULTING IN A NEGATIVE
DECISION, WHICH MENR HAS APPEALED. THE DANISTAY'S SUPREME
BOARD OF JUDGES WILL REVIEW THE DECISION EARLY NEXT YEAR.

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8. THE TURKISH GOVERNMENT EXPECTS ENERGY CONSUMPTION TO INCREASE BETWEEN 8-10 PERCENT PER YEAR OVER THE NEXT DECADE. IT MUST INCREASE THE NUMBER OF GENERATION PLANTS TO MEET THAT DEMAND, WHILE AT THE SAME TIME, MINIMIZING THE ADDITIONAL POLLUTION THAT THESE PLANTS WILL EMIT. IN ADDITION, TURKEY WANTS TO PROTECT ITS ENERGY SECURITY. TO MEET THESE GOALS, THE TURKISH GOVERNMENT HAS AWARDED TENDERS FOR A NUMBER OF RENEWABLE ENERGY PROJECTS. U.S. FIRMS ARE IN THE PROCESS OF IMPLEMENTING THE FOLLOWING PROJECTS, USING THE BUILD-OPERATE-TRANSFER (BOT) MODEL.

PROJECT: 25 MW AYDIN GERMENCIK GEOTHERMAL POWER PLANT PROJECT COMPANY: ORMAT STATUS: CONTRACT SIGNED. COUNCIL OF MINISTERS APPROVAL EXPECTED SHORTLY. POSSIBILITY OF INCREASING PLANT CAPACITY TO 120 MW EXISTS.

PROJECT: 26.5 MW CESME KOCADAG WIND POWER PLANT COMPANIES: PRINCETON DEVELOPMENT AND STERLING ENERGY SERVICE STATUS: STATE PLANNING ORGANIZATION APPROVAL GRANTED IN 2000. CONTRACT NEGOTIATIONS CONTINUE.

PROJECT: 39 MW CANAKKALE WIND POWER PLANT
COMPANY: CANNON INTERNATIONAL
STATUS: STATE PLANNING ORGANIZATION APPROVAL GRANTED IN
2000. CONTRACT NEGOTIATIONS CONTINUE.

PROJECT: 50.4 MW CESME KOCADAG WIND POWER PLANT COMPANY: CANNON INTERNATIONAL STATUS: STATE PLANNING ORGANIZATION APPROVAL GRANTED IN 2000. CONTRACT NEGOTIATIONS CONTINUE.

PROJECT: MAMAK WASTE POWER PLANT (10 MW)
COMPANY: U.S. - TURKISH JOINT VENTURE: TURK AMERICAN
INTERNATIONAL ENERGY VENTURES
STATUS: STATE PLANNING ORGANIZATION APPROVAL GRANTED IN
2000. CONTRACT NEGOTIATIONS WITH THE ANKARA MUNICIPALITY
CONTINUE.

9. COMMENT: AS THIS LIST SHOWS, U.S. FIRMS HAVE PLAYED A TREMENDOUS ROLE IN MEETING TURKEY'S ENERGY NEEDS, USING EVERY INVESTMENT MODEL. IT HAS NOT BEEN EASY TO DEVELOP THEIR PROJECTS. INDEED, IT HAS TAKEN YEARS AND VERY SIGNIFICANT RESOURCES TO RESOLVE ALL THE CHALLENGES THAT THESE COMPANIES HAVE FACED. THE TURKISH GOVERNMENT IS AWARE OF THE DIFFICULTIES AND APPRECIATES THE PATIENCE AND DEDICATION U.S. COMPANIES HAVE SHOWN TO DATE.

10. THE TURKISH GOVERNMENT IS IN THE PROCESS OF INTRODUCING LEGISLATION, WHICH IT EXPECTS WILL CREATE A LIBERALIZED ENERGY SECTOR IN TURKEY BY 2003. THE GOT HOPES THAT A LIMITED NUMBER OF CONTRACTS CURRENTLY UNDER FINAL NEGOTIATION (INCLUDING SEVERAL ON THE LIST ABOVE) WILL MEET TURKEY'S ENERGY GENERATION NEEDS UNTIL THIS TRANSITION IS COMPLETE, AFTER WHICH TIME COMPANIES WILL BE FREE TO DEVELOP THEIR PROJECTS WITH CONSIDERABLY LESS GOVERNMENT INTERFERENCE. WE EXPECT THAT U.S. COMPANIES WILL CONTINUE TO PLAY A VERY LARGE ROLE IN MEETING TURKEY'S ENERGY NEEDS UNDER THE NEW REGIME. END COMMENT. PEARSON

BT #8414 MOZAMBIOUE: SCENESETTER

Secretary Rubin will be visiting at an optimistic, even heady time for Mozambique. Economic restructuring, though not complete, has made a tremendous difference in the psychology of the place, as evidenced by the Harvard Institute for International Development/World Economic Forum 1998 African Competitiveness Report which ranked Mozambican businesses the most "optimistic" of those in 23 African countries surveyed. Since then, qualification for massive debt relief under the lighty Indebted Poor Countries (HIPC) initiative has further brightened the outlook for the country. It has been the government's willingness and ability to successfully undertake acconomic reform, however, that has made this war torn country so confident about its own future.

The positive results of economic reform are obvious. All indications are that a period of rapid economic expansion has begun. Economists are revising 1997 estimates of growth upward from 8 percent to 12 percent. Domestic credit to the economy in 1997 grew 44 percent in real terms, and is expected to grow another 30 percent in 1998. Major foreign investment projects are beginning to materialize, most noticeably the \$1.3 billion MOZAL aluminum smelter, the \$2.5 billion Maputo Integrated Steel Project, the \$500 million Gencor Heavy Sands processing and smelter project in the north, and the \$300 million Maputo Corridor Toll Road.

While the economic reform effort over the past three years has been comprehensive, it is still unfinished. The successes scored in 1996 and 1997 have convinced most rank and file officials of the correctness of the government's course, and most have become willing collaborators. The reform effort will have to deepen over the next few years to meet increasing demands on the government from the public and from major foreign investors. The lack of human capacity within government and the country at large is acute. For this reason, human capacity building must be structured into every aspect of foreign assistance. As Minister of Planning and Finance Tomáz Salomão recently emphasized, "We have to train, train, train."

One question on the minds of Mozambicans is how Mozambique will be treated under the President's Partnership for Economic Growth and Opportunity. Short listed but excluded from the itineraries of a number of high level U.S. official visitors the past 12 months, the GRM is wondering whether its reform effort has been recognized by Washington, HIPC notwithstanding. Secretary Rubin's trip is an excellent opportunity to convey to the GRM that Washington is aware of the success story being written here, and that there is an appropriate place for Mozambique within the President's Partnership with Africa.

On the table with Mozambique is a U.S. bilateral investment treaty (BIT). The GRM has accepted the premise of a U.S. BIT, and wants to move rapidly on it. With Enron, Arco, Cabot, the Railroad Development Corporation, and Seaboard investing

sizable sums in this country, it behooves us to move on a BIT. Secretary Rubin's trip provides an opportunity to underscore the importance of a BIT, and to advocate on behalf of these American companies, each of which has an investment project before the government.

Since 1995, the Ministry of Planning and Finance under Minister Salomão has provided strong, unwavering leadership within the government for reform. In particular, the ministry has held the line on new spending, while shifting increasing emphasis toward health and education and away from defense. The ministry has introduced new methods that have brought greater transparency and clarity to the budget process. And, the ministry has been an unwavering proponent of reform, using its political and bureaucratic muscle to push other ministries and agencies forward.

One example has been Customs reform, where private management, closure of loophole duty exemptions, and an overall reduction of tariffs have had a dramatic impact on operations and revenues. Though private management of customs began only in May, 1997 and tariffs had been substantially reduced only six months earlier, customs receipts for 1997 increased 28 percent. The next step is to introduce new legislation and streamlined procedures to facilitate rather than hinder international commerce.

Another example has been the Center for Investment Promotion (CPI). Once an investment approval agency which hindered investment, CPI has been transformed into a true investment promotion agency. Fernando Sumbana, CPI's activist director appointed in 1997, has extended CPI's mandate to include lobbying other agencies and offices within government to streamline their permit and licensing procedures. He also assumed a leadership role within government in advancing the MOZAL aluminum smelter project (the first Industrial Free Zone investment for Mozambique) and the Maputo Integrated Steel Project (MISP).

At present, the Ministry of Planning and Finance is absorbed with the introduction of a VAT tax system, which is desperately needed to replace the existing system of taxes which cumulate transaction by transaction and are a disincentive to formal sector activity. Legislation will be considered in 1998, but implementation has been delayed until April, 1999 to allow adequate preparation time and to avoid association with or compounding holiday seasonal inflation at the end of the year.

Working closely with the Ministry of Planning and Finance, the Bank of Mozambique (BOM) under Governor Adriano Maleiane has done an outstanding job of controlling inflation, fostering a suitable environment for the financial sector to grow, and managing foreign exchange. BOM policies brought inflation down from a high of 70 percent in 1994, and have kept it down for the last 26 months. Inflation was less than 6 percent in 1997

and so far in 1998, the IMF reports that inflation has hovered near zero. Low inflation and a liberalized foreign exchange regime have translated into stable foreign exchange rates and resurgent demand for the local currency, the metical. One result has been the almost embarrassing accumulation of foreign exchange reserves, now seven months worth of imports and growing.

All banks operating in Mozambique are now private, a major accomplishment. To do it, the GRM had to first create and then privatize both the Banco Comercial de Mocambique (BCM, privatized in 1996) and the Banco Popular de Desenvolvimento (BPD, privatized in September, 1997). Under the supervision of the Bank of Mozambique, new banks have entered the market and/or have increased their national presence and share capital. As fast as the BOM can develop necessary regulatory and/or supervisory procedures, new products and services have been introduced. Most recently, the establishment of an interbank money market has improved market liquidity. A new law governing checks was passed. And now, credit and debit cards can be found. Expected soon is the launch of a small stock exchange in Maputo, where the government can market shares retained in privatized companies. And finally, the BOM is considering issuing domestic debt to facilitate the indirect management of money supply.

Since 1989 legislation to facilitate the sale of state-owned assets, over 840 companies have been privatized. Particularly successful has been the UTRE program for large enterprises, administered by the Ministry of Planning and Finance with assistance from the World Bank. At this point, UTRE is running out of companies to privatize and is preparing to close its doors on a successful program. The program for smaller companies, GREICT, under the Ministry of Industry, Commerce, and Tourism, has been proceeding at an accelerated pace of late, and may well be able to close its doors in 1999. Additionally, the GRM has undertaken to sell houses, buildings, and real estate it expropriated when the Portuguese left the country at Independence.

Some parastatals have remained under the control of their respective ministries, but have been forced to function on a commercial basis. Such is the case with the national port and rail, telephone, electric, airline, and fuel distribution companies, which now function autonomously from government in liberalized sectors. One positive result has been that subsidies to parastatals have been reduced to less than one percent of government expenditures. In 1997, the government announced plans to privatize water companies and willingness to license private power producers and distributors. In the future, the government might sell some of its interest in these enterprises to the public or to strategic foreign investors, and open competition in these sectors is foreseen.

Though the financial sector has certainly led the reform effort, no sector has been left untouched. Telecommunications,

transportation (land, sea, and air), energy, health, labor, agriculture and fisheries have all been subject to major changes in legislation and/or liberalization the past two years. While more needs to be done, almost every ministry and certainly the few remaining parastatals have had to rethink their roles and missions. The ministries of Education, and Agriculture and Fisheries have lagged, but are now undertaking comprehensive reform. The effort to reform the Commercial Code under the Ministry of Industry, Commerce, and Trade has been difficult since it involves coordination among a number of ministries, including the Ministry of Justice. As the Ministry of Planning and Finance accomplishes its most important tasks, what is needed is for other economically oriented ministries to assume leadership to further reduce red tape and administrative barriers to business.

Sound fiscal and monetary management, successful economic reform, and impressive statistics have provided the right environment to attract critical foreign investment. More than \$ 6 billion in realizable foreign investment, led by the South Africans and the U.S. is expected to materialize over the next five years. Major investment projects in very advanced stages are listed below.

- Gencor/Billiton has begun preparations to construct a \$ 1.3 billion aluminum smelter outside Maputo. This is the first of several megaprojects to get started. Construction is scheduled to begin the first week of July; work on erecting transmission lines through South Africa and Swaziland has already begun.
- Enron and Industrial Development Corporation of South Africa have traveled the long route to devise the \$ 2.5 billion Maputo Integrated Steel project (MISP), which should be reviewed and, hopefully, approved by the Council of Ministers on or by July 7.
- In June, Arco announced its program to spend \$ 60 million on natural gas exploration in conjunction with SASOL of South Africa. The intention is to pipe gas to Secunda, South Africa for use at SASOL's synfuel plants there. Fluor Daniel did the feasibility study on a (app.) \$ 600 million pipeline.
- Construction of the new \$ 300 million Maputo Corridor toll road began in May. A one-stop border crossing will be built. The road should shorten travel time to Johannesburg and Pretoria to six hours.
- Cabot Corporation of Boston plans to start rehabilitating a tantalite mine in Zambezia Province in September at a cost of \$ 30 million. Cabot is currently negotiating with partners to double its one-third interest in the project.
- The Railroad Development Corporation of Pennsylvania and Edlow Resources of Washington, D.C. are part of a

consortium which is negotiating long term concession rights to invest in upgrading and managing port and rail services along the northern Nacala Corridor. Up to \$ 80 million may be involved.

In addition to ongoing tax, customs, and commercial code reform, what will be needed to support this level of investment is improved infrastructure, a judicial regime that inspires confidence, and a strong GRM focus on building human capacity.

Mozambique has natural gas, coal, and hydropower and the energy sector has attracted considerable foreign investor attention. A new energy policy has provided the framework for the government to concession almost all available territory in Mozambique's sedentary basin for oil and gas exploration. Those engaged include major international companies such as Enron, Arco, British Petroleum, Lonropet (a division of Lonrho), SASOL, as well as junior companies such as the Canadian Scimitar, Antrium, and Canops companies, and Norwegian Norbay. Of this group, British Petroleum and Lonropet have made it clear that they are looking primarily for oil.

In Tete Province, Cahora Bassa Dam, the second largest in Africa, can produce 1700 MW (firm) of power. Repair of war-damaged transmission lines from the dam to South Africa and Zimbabwe was completed in 1997, enabling the export of 900 MW to South Africa, 500 MW to Zimbabwe. The dam is 82 percent owned by the Portuguese Government (which just announced its intention to sell), and 18 percent owned by the Mozambican government. A European funded feasibility study will soon get started to determine whether to develop the North Shore of Cahora Bassa and/or build a second major dam downstream on the Zambezi River. Nearby at Moatize, the U.S. Trade and Development Agency is considering whether to fund a feasibility study to gauge the prospect of using steam coal to fuel a 1000 MW power plant. The additional power may be piped to Beira and then on to Maputo, or feed into the newly created Southern Africa Power Pool under SADC.

Mozambique promises to be an important supplier of transportation services to South Africa, Swaziland, Zimbabwe, Malawi, Zambia, and Botswana. In addition to the northern Nacala Corridor, major investments are expected from the chosen private managers of the Port of Maputo and southern rail Management of the Port of Beira and the central rail system should be privatized next in 1999. In 1997, the government launched a TVA like effort to develop the Zambezi River Valley, along the war damaged Sena rail line from Beira, passed sugar plantations now undergoing privatization and on to Tete Province and the Moatize coal fields, where coking coal is abundant. The African Development Bank funded Louis Berger International to analyze the restructuring of Mozambican Airports, opening the way for private management concessions in most every area. Meanwhile, road, coastal shipping, and air transportation has also been liberalized.

7 Of greatest concern in the political sphere is the institutionalization of democracy. While the Parliament has matured somewhat, the system established to hold elections has not instilled confidence among the opposition parties, causing most, led by RENAMO, to withdraw from participation in the June 30 local elections. The existence of an guard in both the ruling party FRELIMO and the main opposition party RENAMO has hampered compromise. This has showed itself most recently in the differences between the two over election administration. The government needs to understand the importance of making progress in this area.

Of greatest concern in the economic sphere is completing the task of unencumbering the private sector from government red tape and legal bottlenecks. High on the list is Commercial Code reform, tax reform, and the land tenure system. Of these, the most problematic is land.

All land is owned by the state. Land-use concessions are granted for periods of 50 years with "automatic" renewal and the system has been fraught with irregularities and opportunities for corruption. While individuals may own improvements on land, they may not own the land itself. This generates uncertainty for investors and means that land cannot be used as collateral for loans. While there is a need to sort out small holder claims and communal rights in rural areas, Mozambique also should look at privatizing urban land, as has been done in Uganda. This would allow commercial real estate to be used more efficiently, allow private enterprise to respond quickly to opportunities in a rapidly growing economy by permitting land to be used as loan collateral, and put forth a model for the later privatization of rural land, especially for commercial agriculture.

Also of concern is corruption. Unlike many African countries, Mozambique does not have a long history of corruption. The problem grew during the transition years 1989-1995 when inflation gutted government salaries and officials were unsure what would happen after the December, 1994 general elections. With extensive privatization, regulatory reform, and market liberalization, corruption has been on the decline, but has persisted. The government has embarked on civil service reform designed to instill greater professionalism and raise salaries to retain the most qualified. More needs to be done. In 1997, the Parliament voted down the Ministry of Planning and Finance proposal to create an independent higher authority on corruption in favor of strengthening the current judicial system, which functions poorly and is unlikely to effectively combat corruption. are working to establish a local chapter of Transparency International to provide a public voice on the issue. mitigate risks for foreign investors, Mozambique should ratify the New York Convention on Arbitration as soon as possible. Whatever the form, Mozambique needs to address corruption before it becomes part of the culture and challenges its nascent democracy.

Also of considerable concern is establishing a sound basis for balanced development. While true that most major foreign investments at this time target Maputo, there are several focussing on the center and north of the country where many natural resources are located, including arable land of which only half is farmed.

Agriculture will be central to the long-term development of the nation and is crucial to the survival of three-fourths of the population, which derives its livelihood from the land. Just three years after the successful resettlement of war refugees in 1993-94, the country became virtually self-reliant in grain production, but this is subject to good rains. With the exception of cotton and sugar where commercial investments are being made, rapid growth in agriculture is unlikely due to poor small holder farming methods and weak rural markets. Transportation infrastructure and rural market development have been key elements in assisting Mozambican agriculture, and comprise an important part of our AID program in the country.

(SESAV 717)

#### SENSITIVE BUT UNCLASSIFIED

### INDIA (S in thousands)

Account	FY 2001 Enacted	FY 2002 Request	
FMF		0	0
FMF ESF	50	000	7000
IMET	4	198	650

Rationale for prioritization - India has offered the U.S full cooperation and logistical support, to include overflight, refueling and turnaround, access to ground facilities, seaports and airports, in addition to the use of Indian soil for staging and transit, including strike aircraft, ground forces, naval units and other combat assets. Foreign and Defense Minister Jaswant Singh publicly confirmed India's unprecedented offer of support on September 14, saying India was willing to provide logistical support to and serve as a staging area for U.S. military forces. India is also a front-line state grappling with terrorism in Kashmir and is concerned that U.S efforts to include Pakistan in the coalition will be at the expense of its new, much broader and deeper relationship with the U.S. The A key GOI priority, nuclear-related (Glenn Amendment) sanctions against India were lifted on September 22, thus allowing for broader bilateral and multilateral economic engagement.

Economic and Development Assistance - India received approximately \$5 million in ESF funding in FY01, dedicated primarily to financial markets reform. \$7 million has been requested for FY02. Additional funds would focus on economic growth assistance, agricultural and food security, good governance and basic education. \$58 million is requested for FY02 to support women's empowerment, child survival, family planning, HIV/AIDS, energy and environment and financial markets programs. Current supplemental requests being discussed do not envision an increase in DA.

Military/Security Assistance - India receives U.S. grant security assistance in the form of IMET. India received \$498,000 in FYOL The Department requested \$650,000 for FY02 and PM has recommended that India receive \$1 million in IMET funds in FY03. FMF awaits reconstitution at the bilateral Defense Policy Group.

<u>Humanitarian Assistance</u> - Food Assistance -- India receives food assistance under USDA's 416(b) program. 20,000 MT of 416(b) food aid has been approved for FY01. S64 million of Title II food aid has been approved for India in FY01. In FY02, we are requesting \$80 million. We prefer OMB approval of additional Section 416(b) resources first, and Title II resources second.

<u>Trade Options/Tools</u> - The U.S. absorbs 23% of India's exports (\$10 billion). A WTO member, India is our fifth largest GSP beneficiary. Although India had previously lost half of its GSP access due to IPR concerns and has exceeded the program's competitive need limits for some products, a substantial portion of these benefits have now been restored. USTR Zoellick announced a \$540 million non-IPR-related GSP package in August. India has a textile quota agreement with the U.S. covering \$2.7 billion in exports

#### SENSITIVE BUT UNCLASSIFIED

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in 2000. The quotas must be progressively eliminated by January 1, 2005. Ex-Im is open across the board in India, but India has never been a large Ex-Im market (note that the Enron/Dabhol problem may preclude additional Ex-Im/OPIC assistance if not speedily resolved). India has never been a candidate to negotiate a BIT.

International Financial Institutions - IMF. India does not have or seek an IMF program. MDBs. IDA-Blend; India is an active borrower from both the World Bank and the ADB. India has its largest exposure to IDA (\$19 billion) of any World Bank member, and is one of the top 6 borrowers from IBRD (\$7 billion). The World Bank's lending program for India is \$3 billion (\$2 billion IBRD, \$1 billion IDA) over the period 2002-04. Scope for supporting additional lending is limited. Indeed, by FY05, IBRD lending must be scaled back to avoid exceeding India's lending ceiling. Scope for additional IDA lending is limited by India's slow implementation and poor track record of success.

<u>Debt Options</u> - India is able to service its debt and is unlikely to request debt relief from the USG. Outstanding debt to the USG is \$2 billion; external debt burden is 25% of GDP. The estimated budget cost to reduce 100% of India's debt would be \$1.7 billion; the cost of an illustrative Naples terms reduction would be roughly \$570 million (unilateral) and \$540 million (multilateral). In FY 2002, payments of \$348 million are coming due. The cost to reschedule this amount bilaterally is \$42 million, assuming a 4.5% interest rate.

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## KOREA MONITORING REPORT

MAC/AP - 2nd Quarter, 1999

At the April 7 board	meeting on Korea, the IMF determined that, given Korea's progress, future
reviews of the stand	-by arrangement will take place semiannually, rather than quarterly. The
next IMF review wi	ll likely take place in [early September] and the next board meeting is
scheduled for	Check Treasury

Six more disbursements, totaling about \$1.5 billion (\$245 million each), remain to be paid out to Korea, the final one being scheduled for November 2000. Korea has already repaid about \$8.5 billion of its IMF borrowings.

Under the IMF appropriations legislation of last year, the Secretary of the Treasury is required, prior to each disbursement of IMF funds under Korea's existing Standby Arrangement, to certify to Congress that Korea has either met all of the conditions of its Standby Arrangement or has committed to a timetable to do so. To date Treasury has provided three such certifications, and would need to do so again before the next disbursement, which is expected to take place in early September.

It should be noted that, according to Treasury, the conditions are not given equal weight. They are divided into structural performance criteria, which are specific targets that *must* be met, and benchmarks, which *should* be met but which are treated as lesser commitments. All of the trade-related conditions are benchmarks.

#### I. ELIMINATION OF TRADE-RELATED SUBSIDIES:

Credited by IMF as done. IA will continue to monitor.

#### II. PHASE-OUT OF IMPORT DIVERSIFICATION PROGRAM (IDP):

The last 16 items were eliminated on schedule on June 30, 1999. This is six months
earlier than the date to which Korea committed as part of its OECD accession. The 16
items are listed below. This condition has now been completed.

HS CODE	DESCRIPTION	
4011 10 1000	Rubber tires for motor cars	
8409 91 1000	Parts for auto engines	
8429 52 1000	Excavators	
8457 10 0000	Machining centers	
8458 11 0000	Numerically controlled lathes	
8516 60 2000	Electric rice cookers	
8521 10 2000	Video recorders (magnetic tape)	

8525 20 7030	Radio telephony apparatus (portable)
8528 12 9060	Color TVs (more than 63.5cm)
9703 22 1000	Motor cars (1000-1500cc)
8703 23 1000	Motor cars sedan (1500-3000cc)
8703 23 4000	Station wagons (1500-3000cc)
8703 24 1000	Motor cars sedan (over 3000cc)
8703 23 2000	Motor cars jeeps (over 2500cc)
8708 99 9000	Other parts/accessories for cars
9006 53 9090	Other 35mm cameras (roll film)

#### III. ADJUSTMENT TARIFFS:

 Credited by IMF as done. Technically correct, but the manner in which it was done leaves some tariffs at the higher "adjusted" levels (see previous reports).

#### IV. IMPORT CERTIFICATION PROCEDURES:

- Credited by the IMF as done. Passage of required legislation and issuance of necessary implementing regulations is ongoing.
- The Korean government undertook an internal review of 54 laws and regulations related to imports and import clearance, the results of which the Ministry of Commerce, Industry, and Energy (MOCIE) announced in August on schedule, thus complying with the IMF condition. According to Embassy Seoul, as of [May 6], 26 of the changes (whether by legislation, enforcement decree, regulation, or guideline) were completed. Check with Embassy/Econ

# V. BINDING OF KOREA'S OECD COMMITMENTS ON FINANCIAL SERVICES IN THE WTO:

- The Korean government bound its OECD accession commitments on financial services with the WTO on January 1999. Certain cross-border services were excepted. Treasury continues to negotiate with the ROKG, and reports that progress is being made.
- Korea submitted a revised GATS financial services schedule to the WTO in January 1999 that reflected most, but not all, of its OECD financial services commitments in terms of commercial establishment. Korea chose, however, not to bind any of its OECD commitments for cross-border provision of financial services. In response to Treasury's concerns, Korea agreed in February to bind a number, but not all, of its cross-border OECD commitments. Korea did not agree to any significant improvements in issues of commercial establishment. In a follow-up letter, Treasury requested that Korea bind: a stronger commitment for establishment of 100% owned foreign bank subsidiaries,

commitments for trading in three types of financial instruments (derivatives, exchange and interest rate instruments, and bullion and other negotiable instruments), and the full range of information and advisory services. We have also requested that Korea bind remaining commitments for cross-border services, including for life insurance and financial information and advisory services, in which Korea made no cross border reservations under the OECD. In a letter of May 20, 1999, Korea agreed to bind three more areas: commercial presence for 100% bank subsidiaries and trading of derivatives, exchange rate and interest rate instruments, and other negotiable instruments, and mode 2 foreign exchange trading services. We have told the Koreans this still is not enough and are developing a written response to that effect which draws on OECD Secretariat expertise.

### VI. EQUITY/PRIVATIZATION:

This area falls under the Macroeconomic Policies section of Korea's Letter of Intent to the IMF. However, privatizations are of interest to potential U.S. investors. Following is the status of privatization of various government-owned or -invested entities in Korea:

- The National Textbook Company, Korea Technology Banking Corporation, and Namhae Chemical Corporation have been privatized.
- POSCO sale of 5.8% has reduced public ownership to 20.8%
- Bidding for Korea Heavy Industries (Hanjung), originally scheduled for February, has been delayed.
- Korea General Chemicals pending
- Korea Ginseng and Tobacco, Korea District Heating will occur in phases over the next four years.
- Korea Gas (KOGAS): after short-listing three candidates (Osaka Gas, British Gas, GIC-Singapore), KOGAS called off the process. Enron bid from the U.S. Possible IPO in the fall.
- Daehan Oil Pipeline will go forward but only with local companies bidding the first round. No interest from foreign companies.
- Korea Power Company (KEPCO): currently 53.2% government-owned, 46.8% private (19% U.S., 27.8% Korean).
- Korea Telecom has been publicly listed and the ROKG will reduce its share to 33.4% by 2000.

## PRIORITY

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## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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1 ISM

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CSN = XMP8845

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CAVEAT (S) =

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TO RUEHC/SECSTATE WASHDC PRIORITY 3841

INFO RUCPDOC/USDOC WASHDC

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RUEATRS/DEPT OF IREASURY WASHDC

RUEHLO/AMEMBASSY LOMDON 8183

RUEHDA/AMCONSUL ADAMA 9913

RUEH1T/AMCONSUL ISTANBUL 3114

BT

UNCLAS ANKARA 883529

STATE FOR EB/CBED, EUR/SE

STATE FOR EB/DIA STEWE NEWHOUSE

USDOC FOR 6000/TD/AS/ADVOCACY CENTER

USDOC FOR 4212/1TA/MAC/OEURA/CPD/DDEFALCO

USDOC FOR 6110/TD/BI/OEIM/MBEEMAN

USDOE FOR ROSSI

TREASURY FOR OASIA - MARSHALL MILLS

STATE PASS TO OPIC FOR BULIS, SCHMITZER

STATE PASS TO EXIM FOR SCHNEIDER

E.O. 12958: DEGL: N/A
TAGS: ENRG, EINU, ECON, EFIN, PREL, TU
SUBJECT: TEAS PAYS COMPANIES FOR FEBRUARY ELECTRICITY
BILLS

REF: (A) ANKARA 3192 (B) ANKARA 2384 (C) ANKARA 3416

 ISBUI SUMMARY: ON MAY 29, THE TURKISH GOVERNMENT PAID ENRON'S TRAKYA AND EDISON HISSION'S DOGA PROJECTS FOR OUTSTANDING ELECTRICITY BILLS FROM FEBRUARY. TURKISH TREASURY IS PREPARING A SUPPLEMENTAL FUND OF 400 TRILLION LIRA GROUGHLY USD 400 MILLION) TO ALLOW THE STATE ENERGY COMPANIES TO PAY THEIR BILLS OVER THE MEXT FOUR MONTHS WHILE THEY SET THEIR FIMANCIAL HOUSES IN ORDER. COMPANY OFFICIALS ARE PLEASED, ALTHOUGH THEY REMAIN CONCERNED ABOUT UNPAID FOREIGN EXCHANGE DIFFERENTIAL BILLS. END SUMMARY.

 (SBU) DFFICIALS AT DOGA ENERGY (EDISON MISSION) AND TRAKYA ELECTRIC (ENRON) CONFIRMED THAT THE TURKISH STATE ELECTRICITY TRANSMISSION AND GENERATION COMPANY (TEAS) PAID THEM ON MAY 29 FOR ELECTRICITY THEIR PLANTS GENERATED IN FEBRUARY. [(b)(4)]

[(b)(4)]

4. (SBU) [(b)(6)]
TOLD ECONOFF MAY 38 THAT [(b)(6)]

THAD MET OVER THE MAY 26 WEEKEND TO DISCUSS MEANS TO RESOLVE THIS PAYMENTS ISSUE AS QUICKLY AS POSSIBLE. [(b)(6)] PROMISED THAT ENERGY WOULD HIRE A LAWYER TO WORK WITH TEAS TO RESOLVE THE FOREIGN EXCHANGE DIFFERENTIAL QUESTION AS QUICKLY AS POSSIBLE. [(b)(6)) DEFENDED THAT TEAS IS ALREADY WORKING TO SCHEDULE AN APPOINTMENT FOR ITS LAWYERS TO MEET DURING THE FIRST WEEK OF JUNE MITH LAWYERS FROM THE FOUR BUILD OPERATE AND TRANSFER GENERATION PLANTS TO RESOLVE THE ISSUE.

5. ISBUT ((b)(6))SO REPORTED THAT TREASURY HAS DECIDED TO PROVIDE AN ADDITIONAL 488 TRILLION LIRA FUND IN THE SUPPLEMENTAL BUDGET UNDER PREPARATION WHICH WILL BE AVAILABLE FOR TEAS, TEDAS AND TURKISH STATE PIPELINE COMPANY AND GAS IMPORT MOMOPOLIST BOTAS TO COVER THEIR OPERATION EXPENSES FOR THE NEXT FOUR MONTHS. THIS ADDITIONAL MONEY SHOULD ALLOW THESE AGENCIES TO DISCHARGE OUTSTANDING DEBTS AND STAY CURRENT ON NEW DEBTS WHILE THEY REORGANIZE THEIR EXISTING CASH FLOW TO PREVENT ARREARAGES FROM ARISING IN THE FUTURE ((b)(6)) EXPECTED THAT THE TURKEN PARLIAMENT WOULD SUBHIT THIS SUPPLEMENTAL FUND TO PARLIAMENT FOR APPROVAL DURING THE FIRST WEEK OF JUNE. ((b)(6)) FAID THAT TREASURY WOULD ALSO KEEP A VERY CLOSE EYE ON EXPENDITURES MADE BY THESE STATE AGENCIES TO FORCE THEM TO CUT EXPENSES. ((b)(4))

PRIORITY

## UNCLASSIFIED

## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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CSN = XMP8845

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[(b)(4)]

6. ISBUD BETWEEN JUNE AND JANUARY, [(b)(6)] ALD THAT TEAS WILL GRADUALLY RAISE ITS PRICES TO BOOST HIS CASH FLOW. TEAS INTENDS TO RAISE THESE PRICES FROM THE CURRENT LEVEL OF 4.3 CENTS PER KILOWATT HOUR TO 5.13 CENTS IN DECEMBER. FOR THE YEAR, AKTUGAN BELIEVED TEAS WOULD BE ABLE TO MEET THE YEARLY AVERAGE TARGET OF 4.5 CENTS PROVIDED BY THE WORLD BANK.

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## DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

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ITF (1):ITI (1):OHF (1):QC (1):SEN I-):TSDN (-):CRC = EIBC

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TO RUEHC/SECSTATE WASHDC PRIORITY 2111

INFO RUEHNE/AMEMBASSY NEW DELHI 7556

RUEHCI/AMCONSUL CALCUTTA 1476 RUEHCG/AMCONSUL CHENNAI 3961

RUEATRS/TREASDEPT WASHDC

RUCPDOC/USDOC WASHDC 8866

BI

UNCLAS MUMBAI 98548

STATE PASS EXIMBANK FOR RITA MURRELL/DONNA SCHNEIDER

STATE PASS OPIC FOR BRIDGET WILLIAMS AND RUTH ANN NICASTRI

STATE PASS USTR FOR RICK RUZICKA

STATE PASS SEC FOR MARISA LAGO

STATE PASS TO CURRAN AT SAN FRANCISCO FED

TREASURY FOR GEETHA RAO

USDOC FOR 3131/010/AMESA/KBRENNAN

USDOC FOR 4539/MAC/OSAO/ASTERN

USDOC FOR RHARDING

SENSITIVE

E. 8. 12958: N/A/

TAGS: ENRG. EF N. ECON. EINV. IN

SUBJECT: DABHOL POWER COMPANY CALLS FOR ARBITRATION

REF: NEW DELHI 2397

1. (SBU) ON APRIL 4, 2001, THE DABHOL POWER-COMPANY (DPC) FILED A CLAIM IN THE LONDON COURT OF ARBITRATION AND ISSUED NOTICES OF CONCILIATION AND ARBITRATION TO THE GOVERNMENT OF INDIA (GOI) IN CONNECTION WITH THE NON-PAYMENT OF THE DECEMBER 2006 BILL OF 322 MILLION. DPC HAS ALSO INVOKED THE STATE GUARANTEE FOR NON-PAYMENT OF THE JANUARY BILL, MHICH AMOUNTS TO 324 MILLION (INCLUDING INTEREST). UNDER THE MOTICE OF CONCILIATION, THE GOI HAS THE OPTION TO USE THE NEXT SIXTY DAYS TO SEEK MEDIATION OF THE DISPUTE. IF THE GOI CHOOSES NOT TO MEDIATE OR THE CASE DOESN'T SETTLE WITHIN SIXTY DAYS, THE PARTIES THEN HAVE THIRTY DAYS IN WHICH TO CHOOSE AN ARBITRATOR AND THE CASE GOES TO LONDON. [(b)(4)]

2. ISBUI DPC'S ACTIONS COME IN THE WAKE OF LAST WEEK, S GOI

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NOTIFICATION TO ENRON THAT IT WAS MOT GOING TO HONOR ITS COUNTER-GUARANTEE ON DABHOL (REFTEL). THE GOI'S CHANGE IN POSITION FROM EARLIER -- WHEN IT HAD CLEARLY STATED LTS INTENT TO HONOR THE CONTRACT IF THE STATE COULD NOT PAY HAS SURPRISED ENRON/DPC.

[(b)(4)]

(NOTE: SINCE MSEB HAS PAID THE FEBRUARY BILL AND THE STATE GUARANTEE HAS JUST NOW BEEN INVOKED FOR JANUARY, ONLY THE DECEMBER BILL IS UNDER DISPUTE! N ARBITRATION. HOWEVER, THE DAMAGE AMOUNT CAN BE AMENDED TO INCORPORATE SUBSEQUENT NON-PAYMENTS IF THE ARBITRATION DRAGS ON. END NOTE.!

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# DEPT TREASURY COMCEN PH 622-2222 RM 1121/MT

[(b)(4)]

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CAVEAT (S) =

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INFO RUENNE/AMEMBASSY NEW DELHI 1398

RUEHCI/AMCONSUL CALCUTTA 1418

RUENCG/ANCONSUL CHENNAL 3987

RUEHMS/AMEMBASSY MUSCAT

RUEATRS/TREASOEPT WASHDO

RUCPDOC/USDOC WASHDC 9848

UNCLAS MUMBAI 88245

STATE PASS EXIMBANK FOR HUTCHINSON AND RITA MURRELL STATE PASS OPIC FOR RUTH ANN NICASTRI AND BRIDGET WILLIAMS STATE PASS USTR FOR RICK RUZICKA

STATE PASS SEC FOR MARISA LAGO

TREASURY FOR GEETHA RAD

USDOC FOR 3131/818/ANESA/KERENNAN

USDOC FOR 4538/MAC/OSAO/ASTERN

USDOC FOR 6888/LTA/TD/AC/TSCHUNG

USCOC FOR RHARDING

SENSITIVE

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E. R. 12958: N/A

TAGS: ENRG. EFIN. ECCN. EINV. IN

SUBJECT: ENROW UPDATE: STATE ELECTRICITY BOARD COMPLETES NOVEMBER

PAYMENT

1. ISBUT IN THE LATEST TWIST TO THE ENRON/DABNOL POWER COMPANY IDPCI DRAMA. THE MAHARASHTRA STATE ELECTRICITY BOARD WISEBI ON FEBRUARY 12, 2001 PAID ENROW THE REMAINDER OF ITS OUTSTANDING NOVEMBER 2000 BILL. IN THE AMOUNT OF 74 CRORE RUPEES (ABOUT \$16 MILLION). THIS PAYMENT SATISFIES THE PORTION OF THE TOTAL DEBT FOR WHICH ENRON/OPC HAD CALLED IN THE CENTRAL GOVERNMENT COUNTER-GUARANTEE. MEDIA REPORTS QUOTE AN MSEB OFFICIAL AS SAYING THAT THE FUNDS CAME "PARTLY THROUGH INTERNAL ACCRUALS AND PARTLY FROM THE STATE GOVERNMENT." MSEO HAD UNTIL COO TODAY TO PAY ITS OUTSTANDING INVOICE FROM DECEMBER 2000 (ABOUT \$33 HILLION). IT HAS NOT DONE SO. AND ENRON/OPC ONCE AGAIN IS ENTITLED TO CALL IN THE CENTRAL COVERNMENT COUNTER-GUARANTEE FOR THIS AMOUNT. [(b)(4)]



ISBUT COMMENT: THE LATEST PAYMENT BY MSEB COMES AS A SURPRISE CONSIDERING THAT, UNTIL NOW, THE STATE HAD HELD THE POSITION THAT IT HAD NO FUNDS AVAILABLE TO PAY ENRON/OPC. AND EVEN IF IT DID. IT YOULD NOT PAY ENROW/OPC BECAUSE IT CONSIDERED THE POWER EXPENSIVE. EVEN AFTER ENRON/OPC HAD INVOKED THE CENTRAL GOVERNMENT COUNTER-CUARANTEE LAST WEEK, ALL INDICATIONS WERE THAT THE STATE WAS WAITING FOR THE CENTER TO BAIL IT OUT. MEANWHILE, MEDIA REPORTS HAVE QUOTED THE CENTER AS INSISTING THAT IT WOULD MAKE GOOD ON ITS OBLIGATIONS AND PAY EXPONJOPC IF NECESSARY. A WELL-PLACED SOURCE IN THE CENTRAL GOVERNMENT TOLD CONGENOFF THAT CENTRAL GOVERNMENT MINISTER INFORMATION MAHAJAM, HATIONAL CONGRESS PARTY LEADER SHARAD PAWAR AND THE PRIME MINISTER, S OFFICE WERE WORKING HARD TO FIND A "WIN-WIN SOLUTION" TO THIS ISSUE. THIS SOURCE FURTHER INDICATED THAT "THE CENTRAL GOVERNMENT WANTS TO STEP IN WITHOUT GIVING THE APPEARANCE THAT IT HAS STEPPED IN." THIS JIBES WITH WHAT (b) (600 AMBASSADOR CELESTE LAST WEEK -- THAT THE GOT WAS "IN THE MOOD" ADDITIONAL POWER OR HELP DISTRIBUTE DPC POWER TO OTHER STATES AND THAT CENTRAL GOVERNMENT MINISTER PRABMU "MANTS TO RESOLVE THE ENRON ISSUE AND HONOR GOT COMMITMENTS". [(b)(4)]

THE MSER'S MEN MILLINGNESS TO TALK AND MAKE A PARTIAL PAYMENT IS ENCOURAGING. IT IS CLEAR THAT THE STATE IS FEELING MORE PRESSURE FROM THE CENTRAL COVERNMENT. BUSINESSES CONCERNED ABOUT LAST WEEK, S DOWNGRADING OF MANARASHTRA. S CREDIT RATING, AND PERHAPS EVEN THE OMANI GOVERNMENT INHOSE REPS WERE IN TOWN LAST WEEK TO CHECK OUT THE ENRON SITUATION OMAN IS COMMITTED TO SUPPLYING A LARGE QUANTITY OF LNG TO THE ENRON PLANTI. WHETHER THE STATE.'S POSITIVE MOVEMENT WILL CONTINUE REMANS TO BE SEEN. END COMMENT.

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